

**REPUBLIC OF PALAU**

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**REPORT ON THE AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

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**YEAR ENDED SEPTEMBER 30, 2012**

**REPUBLIC OF PALAU**

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**BASIC FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2012**

**REPUBLIC OF PALAU**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2012**

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**REPUBLIC OF PALAU**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2012**

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## **INDEPENDENT AUDITORS' REPORT**

His Excellency Tommy Remengesau, Jr.  
President  
Republic of Palau:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2012, which collectively comprise the Republic's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the Republic. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, which represents 31%, 7% and 39%, respectively, of the assets, net assets and operating revenues of the Republic's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

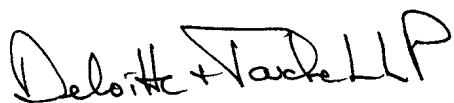
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the beginning net assets/fund balances of the governmental activities, the aggregate discretely presented component units, the General Fund and the aggregate remaining fund information have been restated to correct misstatements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013, on our consideration of the Republic of Palau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 15, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 69 and 70, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Republic's financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Republic. This supplementary information is the responsibility of the management of the Republic. The additional information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is stylized, with the "D" and "T" being particularly large and prominent.

November 14, 2013

## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2012**

As management of the Government of the Republic of Palau (the "Republic"), we offer readers of the Republic's financial statements this narrative overview and analysis of the financial activities of the Republic for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the Republic's basic financial statements, which follow this section. Fiscal year 2011 comparative information has been included, where appropriate.

#### **FINANCIAL HIGHLIGHTS**

- The assets of the Republic exceeded its liabilities at the close of the most recent fiscal year by \$358.6 million (net assets), increasing by \$6 million (or 1.7%) from the restated net assets of \$352.6 million in the prior year. Of this amount, \$200.8 million represents the Republic's investment in capital assets; \$171.9 million represents amounts restricted for various purposes, with the remaining deficiency of \$14.1 million to be funded from future governmental activities.
- During the current fiscal year, the Republic's expenses for governmental activities were \$117.6 million and were funded in part by \$43.8 million in program revenues and \$48.3 million in taxes and other general revenues. General revenues increased by \$5.3 million (or 12.3%) from \$43 million in the prior year to \$48.3 million, which was attributable primarily to the increase in tax revenues of \$3.4 million. Expenses increased by \$6 million (or 5.4%) from \$111.6 million in the prior year to \$117.6 million, which was attributable primarily to an increase in general government expenses.
- The Compact Section 211(f) Trust Fund generated net revenues of \$30.3 million in the current fiscal year offset by an appropriation of \$5 million representing the transfer out to the General Fund as budgetary support, increasing the Republic's trust fund balance to \$171.8 million from \$146.5 million in the prior year (up 17.3%).
- For the current fiscal year, the General Fund revenues (and other financing sources) of \$74.4 million exceeded general fund expenditures (and other financing uses) of \$63.7 million. General fund revenues (and other financing sources) were up \$14.6 million (or 24.4%) from prior year primarily due to the receipt of loan proceeds of \$9.9 million. Concurrently, General Fund appropriations (and other financing uses) were up \$1.7 million (or 3%) from prior year primarily due to the recognition of interest of \$0.3 million associated with delinquent payments to the Civil Service Pension Plan and a \$1.1 million emergency payment to the Palau Public Utility Corporation.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Republic's basic financial statements, which comprise of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, and other supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds, fiduciary funds and component units.

## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2012**

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Republic's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the Republic's assets and liabilities, with the difference between the two reported as net assets. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the Republic's net assets and how they have changed. Net assets, being the difference between the Republic's assets and liabilities, is one way to measure the Republic's financial health or position.

- Over time, increases or decreases in the Republic's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Republic, additional non-financial factors such as changes in the Republic's tax base, the condition of the Republic's roads and infrastructure, and the quality of services needs to be considered.

The government-wide financial statements of the Republic are divided into two categories:

- Primary government - this grouping comprises governmental activities, which includes most of the Republic's basic services such as education, health and welfare, public safety, and general administration. Compact and other federal grants finance most activities of the primary government.
- Discretely presented component units – the Republic includes numerous other entities in its report. Although legally separate, these “component units” are important because the Republic is financially accountable for them.

#### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Republic, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal matters.

- Some funds are required by Olbiil Era Kelulau legislation.
- The Republic establishes other funds to control and manage money for particular purposes (like the Other Country Grants Fund) or to show that it is properly using certain grants (like federal grants reported in the U.S. Federal Grants and Other Assistance Funds).

All of the funds of the Republic can be divided into two categories - governmental and fiduciary.



## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2012**

#### **Fund Financial Statements, Continued**

Governmental funds - These are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Republic's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Republic's programs.

Fiduciary funds - These are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Republic's own programs. The Republic is the trustee, or fiduciary, for other assets that because of trust arrangements, can be used only for the trust beneficiaries. The Republic is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Republic's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of change in fiduciary net assets.

Discretely presented component unit financial statements are presented for entities where the Republic has financial accountability, but are independent of the core Republic operations. Most operate similar to private-sector businesses.

Additional information on the restatement of the beginning net assets/fund balances of the governmental activities, the aggregate discretely presented component units, the General Fund and the aggregate remaining fund information can be found in note 15 to the financial statements.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons.

The other supplementary information referred to earlier is presented immediately following the required supplementary information on budgetary comparisons.

# REPUBLIC OF PALAU

## Management's Discussion and Analysis Year Ended September 30, 2012

### A FINANCIAL ANALYSIS OF THE REPUBLIC AS A WHOLE

#### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Republic, assets exceeded liabilities by \$358.6 million at the close of the most recent fiscal year. However, all these net assets are either restricted as to the purpose they can be used for or are invested in capital assets. The Republic uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Republic's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. The majority of the Republic's net assets are comprised of its capital assets net of long-term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Republic's current assets amounted to \$27.2 million while its current liabilities were \$30 million. Restricted net assets represent resources that are subject to external constraints. The table below summarizes the Republic's net assets at the close of the current year compared with prior year.

	Net Assets As of September 30		
	Governmental Activities 2012	(As Restated) Governmental Activities 2011	Total Percentage Change 2012-2011
Current and other assets	\$ 201,641,918	\$ 168,773,516	19.5%
Capital assets	214,928,104	236,547,169	-9.1%
<b>Total assets</b>	<b>416,570,022</b>	<b>405,320,685</b>	<b>2.8%</b>
Long-term debt outstanding	24,729,881	16,457,145	50.3%
Other liabilities	33,194,947	36,255,814	-8.4%
<b>Total liabilities</b>	<b>57,924,828</b>	<b>52,712,959</b>	<b>9.9%</b>
Net assets:			
Invested in capital assets, net of related debt	200,070,957	220,090,024	-9.1%
Restricted	172,093,832	152,561,506	12.8%
Unrestricted	(13,519,595)	(20,043,804)	-32.5%
<b>Total net assets</b>	<b>\$ 358,645,194</b>	<b>\$ 352,607,726</b>	<b>1.7%</b>

At the end of the current fiscal year, the Republic's unrestricted net asset deficiency was \$13.5 million, a decrease on the prior year amount by \$6.5 million (or 32.5 %). This deficiency is the result of having long-term commitments that are greater than currently available resources. Specifically, the Republic did not include in past annual budgets the full amounts needed to finance future liabilities arising from MICB and ADB loans as well as to pay for unused employee annual leave balances. The Republic will include these amounts in future years' budgets as they become due.

# REPUBLIC OF PALAU

## Management's Discussion and Analysis Year Ended September 30, 2012

### Changes in Net Assets

As discussed earlier, net assets of the primary government increased by \$6 million, representing an increase of 1.7% from the prior year's restated amount of \$352.6 million. This result indicates that the Republic's financial condition, as a whole, improved from the prior year. The table below summarizes the Republic's change in net assets for the current fiscal year as compared with prior year.

### Changes in Net Assets For the Years Ended September 30

	Governmental Activities 2012	(As Restated) Governmental Activities 2011	Total Percentage Change 2012-2011
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 11,717,802	\$ 10,686,465	9.7%
Operating grants and contributions	32,043,549	30,683,561	4.4%
	<u>43,761,351</u>	<u>41,370,026</u>	5.8%
General revenues:			
Taxes	35,797,619	32,369,158	10.6%
Other general revenues	12,542,832	10,627,744	18.0%
	<u>48,340,451</u>	<u>42,996,902</u>	12.4%
<b>Total revenues</b>	<b><u>92,101,802</u></b>	<b><u>84,366,928</u></b>	<b>9.2%</b>
<b>Expenses:</b>			
General government	21,535,629	16,317,808	32.0%
Education	15,933,447	13,563,470	17.5%
Health and welfare	17,091,111	15,725,014	8.7%
Public safety	3,733,438	4,549,187	-17.9%
Cultural affairs and recreation	6,054,443	6,376,676	-5.1%
Transportation and commerce	46,701,730	48,276,210	-3.3%
State government appropriations	4,735,883	4,875,162	-2.9%
Depreciation - unallocated	1,185,241	1,272,206	-6.8%
Interest	601,030	616,288	-2.5%
<b>Total expenses</b>	<b><u>117,571,952</u></b>	<b><u>111,572,021</u></b>	<b>5.4%</b>
	<b>(25,470,150)</b>	<b>(27,205,093)</b>	-6.4%
Contributions to permanent funds	31,507,618	1,438,753	2089.9%
<b>Change in net assets</b>	<b>6,037,468</b>	<b>(25,766,340)</b>	<b>-123.4%</b>
<b>Net assets, beginning of year</b>	<b><u>352,607,726</u></b>	<b><u>378,374,066</u></b>	<b>-6.8%</b>
<b>Net assets, end of year</b>	<b><u>\$ 358,645,194</u></b>	<b><u>\$ 352,607,726</u></b>	<b>1.7%</b>

Key elements of the increase in net assets are as follows:

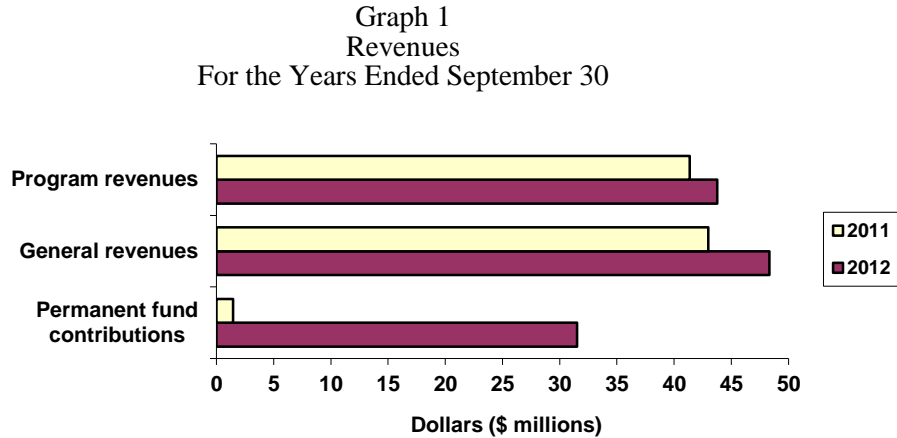
- The Compact Section 211(f) Trust Fund contributions of \$31.5 million stand in marked contrast to the prior fiscal year when the trust fund earnings contributed \$1.4 million. Overall revenues increased in the current year by \$7.7 million (or 9.2%) due primarily to an increase in general revenues of \$5.3 million (or 12.4%) as compared with the prior year.

# REPUBLIC OF PALAU

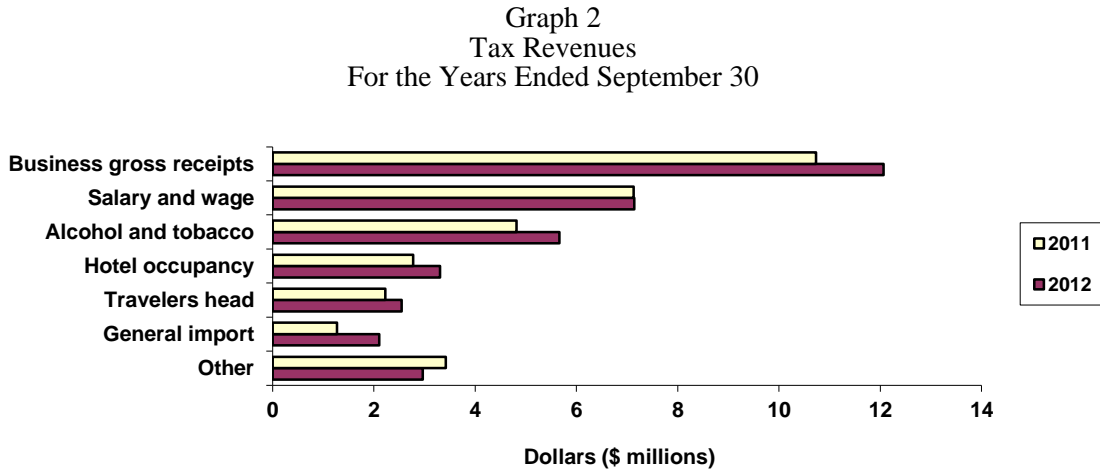
## Management's Discussion and Analysis Year Ended September 30, 2012

### Change in Net Assets, Continued

A graphic summary of program revenues, general revenues and permanent fund contributions received by the Republic for the current year compared with prior year follows:



A significant portion of the Republic's general revenues involves tax revenue collections. At \$35.8 million in the current year, tax revenues were marginally higher than the \$32.4 million collected in the prior year. A graphic summary of the Republic's tax revenue collections for the current year compared with prior year follows:



# REPUBLIC OF PALAU

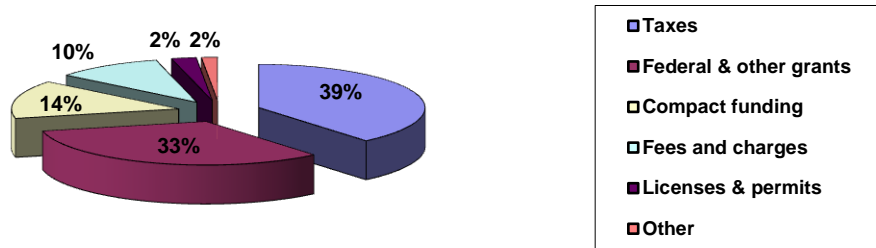
## Management's Discussion and Analysis Year Ended September 30, 2012

### Change in Net Assets, Continued

- Cost of governmental activities increased in the current year by \$6 million (up 5.4%) compared with prior year. Education and health related expenses comprised of \$33 million (or 27.8%) of total expenses in the current year as compared with \$29.3 million (or 26.5%) in the prior year, which reflects the Republic's continued priorities in terms of annual appropriations.

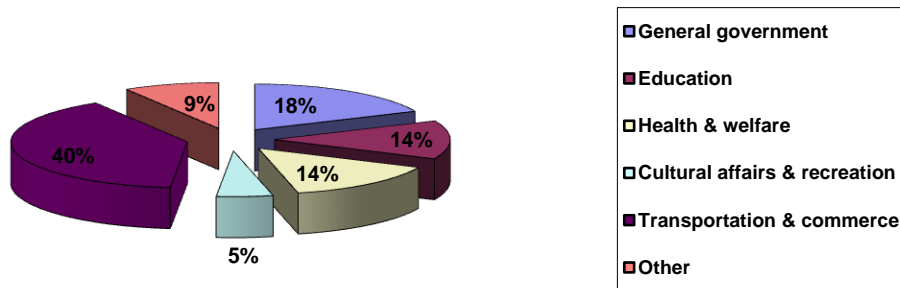
Graphs 3 and 4 below indicate the major components of revenues and cost of governmental activities.

Graph 3  
Revenue Sources  
For the Year Ended September 30, 2012



Compact funding, local taxes and federal and other grants are the major sources of revenue for the Republic, which comprise 86% of the total revenues for the current year. The remaining 14% is primarily comprised of various fees and service charges.

Graph 4  
Cost of Governmental Activities  
For the Year Ended September 30, 2012



Other expenses that make up a portion of the costs of governmental activities include public safety expenses within the Ministry of Justice (\$3.7 million), State government appropriations (\$4.7 million), unallocated depreciation expense (\$1.2 million), and interest expense (\$0.6 million).

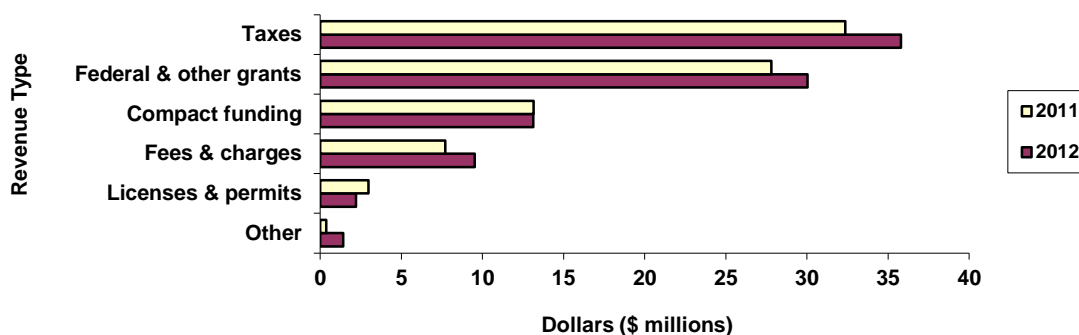
## REPUBLIC OF PALAU

### Management's Discussion and Analysis Year Ended September 30, 2012

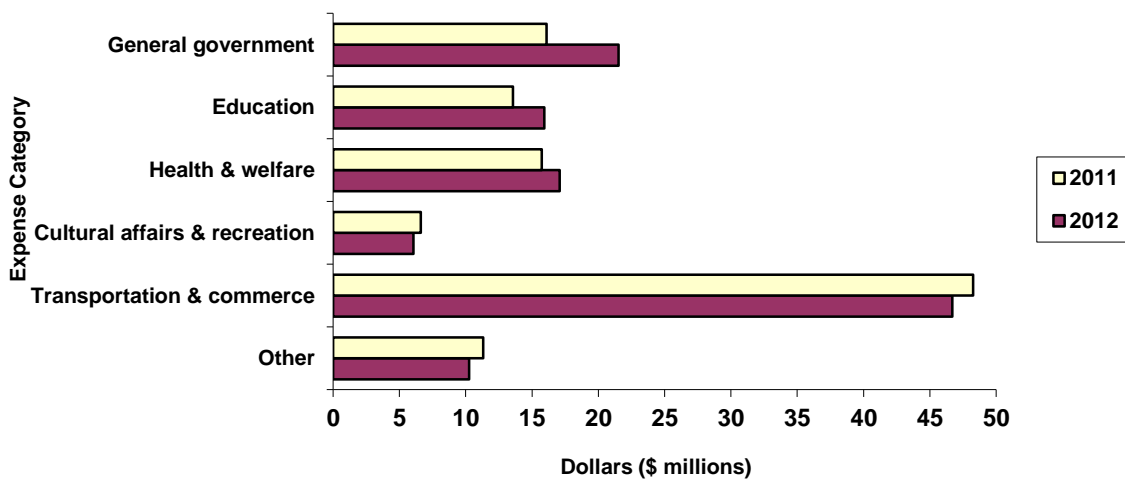
#### Changes in Net Assets, Continued

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2012 and 2011.

Graph 5  
Revenue Sources  
For the Years Ended September 30



Graph 6  
Cost of Governmental Activities  
For the Years Ended September 30



Other expenses in the current year includes public safety expenses within the Ministry of Justice of \$3.7 million, down from \$4.5 million in the prior year; State government appropriations of \$4.7 million, down from \$4.9 million in the prior year; unallocated depreciation expense of \$1.2 million, down from \$1.3 million in the prior year; and interest expense of \$0.6 million, which is consistent with that recorded in the prior year.

# REPUBLIC OF PALAU

## Management's Discussion and Analysis Year Ended September 30, 2012

### Analysis of Changes in Net Assets

During the current fiscal year, the Republic's total net assets increased by \$6 million compared with a decrease in the prior fiscal year of \$25.8 million. This represents an increase year on year in the change in net assets of \$31.8 million. The key element of this increase is Compact Section 211(f) Trust Fund contributions of \$31.5 million in the current fiscal year, which stands in marked contrast to the prior fiscal year when the trust fund earnings contributed \$1.4 million. The elements of these changes are reflected below:

	Governmental Activities 2012	(As Restated) Governmental Activities 2011	Total Percentage Change 2012-2011
General revenues:			
Taxes	\$ 35,797,619	\$ 32,369,158	10.6%
Other general revenues	12,542,832	10,627,744	18.0%
<b>Total general revenues</b>	<b>48,340,451</b>	<b>42,996,902</b>	<b>12.4%</b>
Expenses, net of program revenues:			
General government	12,844,527	9,132,255	40.7%
Education	9,630,614	7,253,600	32.8%
Health and welfare	9,251,456	9,120,800	1.4%
Public safety	3,542,525	3,933,875	-9.9%
Cultural affairs and recreation	3,901,356	3,369,769	15.8%
Transportation and commerce	28,117,969	30,628,040	-8.2%
State government appropriations	4,735,883	4,875,162	-2.9%
Depreciation - unallocated	1,185,241	1,272,206	-6.8%
Interest	601,030	616,288	-2.5%
<b>Total expenses</b>	<b>73,810,601</b>	<b>70,201,995</b>	<b>5.1%</b>
Contributions to permanent fund	31,507,618	1,438,753	2089.9%
<b>Change in net assets</b>	<b>\$ 6,037,468</b>	<b>\$ (25,766,340)</b>	<b>-123.4%</b>

General revenues increased by \$5.3 million (or 12.4%) from the previous fiscal year. The increase was primarily due to increases in tax revenues of \$3.4 million (or 10.6%) compared with prior year, and other revenues of \$1.9 million (or 18%) compared with prior year. Expenses, net of program revenues, increased by \$3.6 million (or 5.1%) from the previous fiscal year. The increase was primarily due to an increase in education assistance payments of \$1.9 million to the Palau Community College, the recognition of interest of \$0.3 million associated with delinquent payments to the Civil Service Pension Plan, and a \$1.1 million emergency payment to the Palau Public Utility Corporation.

## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2012**

#### **FINANCIAL ANALYSIS OF THE REPUBLIC'S FUNDS**

As noted earlier, the Republic uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

##### **Governmental Funds**

The focus of the Republic's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Republic's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Republic's governmental funds reported combined ending fund balances of \$175.5 million, which represents an increase of \$35.9 million (or 25.8%) in comparison with the prior year. This increase is primarily attributable to an increase in the fair value of the Republic's investments in the Compact Section 211(f) Trust Fund. Of this total combined fund balance, \$174.4 million is designated as nonspendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; \$8.4 million is designated as restricted and is constrained for specific purposes which are externally imposed; and \$0.7 million is designated as committed and is constrained for specific purposes which are internally imposed. The combined unassigned fund balance of the Republic's governmental funds is a negative \$8 million, indicating a deficit in unassigned fund balances.

The General Fund is the chief operating fund of the Republic. At the end of the current fiscal year, the unassigned fund balance of the General Fund reflected a deficit of \$7.6 million. Total fund balance was \$0.4 million compared with a total fund balance deficit of \$10.3 million at the end of the prior fiscal year, an increase of \$10.7 million. The increase in the overall fund balance of the General Fund was primarily due to the receipt of loan proceeds of \$9.9 million.

The Grants Fund has a total fund balance of \$0.03 million, which primarily represents U.S. federal grant revenues received not yet expended at year end. The net increase in fund balance during the current year in the Grants Fund was \$0.2 million (or 114.9%).

The Compact Section 211(f) Trust Fund has a total fund balance of \$171.8 million, all of which is restricted for the funding of future operations of the primary government. The net increase in fund balance during the current year in the Compact Section 211(f) Trust Fund was \$25.3 million (or 17.3%), which reflects a transfer of \$5.0 million to the Republic's General Fund and a net increase in the value of trust fund investments of \$30.3 million. This contrasts sharply with the prior fiscal year when the Compact Section 211(f) Trust Fund had a net decrease in fund balance of \$4.6 million.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the fiscal year, budget revisions of \$6.4 million were made by management and elected officials of the Republic to the General Fund budget. Revenues collected (including other financing sources) of \$64.6 million were higher than budgeted amounts of \$62.4 million due primarily to loan proceeds of \$3.5 million from an Asian Development Bank loan to fund water and sewer operations offset by a decrease in local revenue collections, which fell short of budgeted amounts by \$1.8 million. In addition, charges to appropriations (including other financing uses) of \$60.9 million were lower than budgeted amounts of \$62.6 million due primarily to expenditures associated with the executive branch and debt service of \$51.3 million and \$2.2 million, respectively, which were lower than budgeted amounts of \$52.4 million and \$2.7 million, respectively.



# REPUBLIC OF PALAU

## Management's Discussion and Analysis Year Ended September 30, 2012

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

The Republic's investment in capital assets for its governmental activities as of September 30, 2012 amounted to \$439.6 million (including \$22 million of land and construction in progress), net of accumulated depreciation of \$224.7 million, leaving a net book value of \$214.9 million. This represents a decrease of \$21.6 million from the restated amount of \$236.5 million reported in the prior year. The Republic's capital assets include machinery and equipment, vehicles, infrastructure, roads and bridges, buildings, land, and various projects under construction.

	Capital Assets September 30, (Net of depreciation)		
	Governmental Activities 2012	(As Restated) Governmental Activities 2011	Total Percentage Change 2012-2011
Buildings and other improvements	\$ 87,992,217	\$ 90,993,695	-3.3%
Machinery and equipment	5,073,435	6,276,041	-19.2%
Vehicles	1,394,710	1,899,549	-26.6%
Infrastructure	98,455,024	122,310,436	-19.5%
Land	3,850,294	3,691,850	4.3%
Construction in progress	18,162,424	11,375,598	59.7%
<b>Total</b>	<b>\$ 214,928,104</b>	<b>\$ 236,547,169</b>	<b>-9.1%</b>

Major capital asset additions during the current year were as follows:

- Completion of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
MOE Solar Project	\$ 0.4	\$ 0.5
Agriculture Development Center	\$ 0.4	\$ 0.6
Malakal Marine Resource Building	\$ 0.4	\$ 1.3
Energy Efficient Building	\$ 0.3	\$ 0.4
BNH Community Health Center	\$ 0.4	\$ 0.5
Various Road Rehabilitation Projects	\$ 1.2	\$ 2.3

- Acquisition of the following machinery and equipment:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>
BPS Radio Communication System	\$ 1.7
X-ray and Scanner System	\$ 0.3
MOE School Buses	\$ 0.2

# REPUBLIC OF PALAU

## Management's Discussion and Analysis Year Ended September 30, 2012

### Capital Assets, Continued

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Total Cost to Date (\$ millions)</u>
PIA Secondary Apron Phase II, 1A	\$ 4.5	\$ 7.2
Koksai-Ngchesar Road Phase II to IV	\$ 4.5	\$ 9.0
Koksai-Nekken Road Phase I and II	\$ 0.4	\$ 0.5
PIA Master Plan	\$ 0.1	\$ 0.8
Palau High School Dorm Project	\$ 0.2	\$ 0.2
Ngarchelong Water System	\$ 0.2	\$ 0.2
Ngerikiil Water Distribution System	\$ 0.2	\$ 0.2

Additional information on the Republic's capital assets can be found in note 5 to the financial statements.

### Long-term Debt

The Republic has entered into four separate loans with the Mega International Commercial Bank and the Asian Development Bank (ADB) (See table below). Long-term debt obligations increased by \$8.2 million (or 50.3%) in the current fiscal year.

#### Outstanding Long-term Debt September 30,

	<u>Governmental Activities</u> <u>2012</u>	<u>Governmental Activities</u> <u>2011</u>	<u>Total Percentage Change</u> <u>2012-2011</u>
Melekeok State Capitol Building	\$ 9,142,849	\$ 10,285,707	-11.1%
Palau International Airport Repaving Project	5,714,298	6,171,438	-7.4%
Water Sector Improvement (Loan # 2691)	6,400,000	-	
Water Sector Improvement (Loan # 2692)	3,472,734	-	
<b>Total</b>	<b>\$ 24,729,881</b>	<b>\$ 16,457,145</b>	<b>50.3%</b>

During the year ended September 30, 2012, the Republic entered into two new loans with the ADB for the Water Sector Improvement Project.

Additional information on the Republic's long-term debt can be found in note 7 to the financial statements.

## **REPUBLIC OF PALAU**

### **Management's Discussion and Analysis Year Ended September 30, 2012**

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

In Fiscal Year 2012, actual local revenue collected was \$35.8 million, an increase of 10.6% from the \$32.4 million collected in Fiscal Year 2011. The increase in collections of \$3.4 million was primarily due to increases in tax revenues. All major revenue categories saw increases from previous year with the largest increase coming from hotel occupancy tax. Collections from hotel occupancy tax were \$3.3 million a 19% increase from the \$2.7 million collected in Fiscal Year 2011. Traveler's head tax collections saw an increase from \$2.2 million in Fiscal Year 2011 to \$2.5 million or 15% increase in Fiscal Year 2012. Compact revenues have remained fairly constant while indirect cost recoveries fluctuate and depend on program size. Investment earnings continue to increase subsequent to the global financial and economic crisis. The Republic continues to tap into the remaining balances of its investment principal value for budgetary support as it awaits the outcome of the new Compact Agreement.

Although revenue collection saw an increase in collections in Fiscal 2012 from the previous year the government continues to struggle to balance its budget mainly due to increasing energy costs which is affecting prices and cost across all sectors. Additionally the government has completed some major infrastructure projects that we now have to maintain. The government continues to seek other revenue sources to meet these anticipated costs. Again in 2012, some new measures were introduced to try and raise additional revenue, i.e. tax reforms, new water and sewer rates, eliminating import duty exemptions, moving to CIF (cost, insurance, and freight) valuation, and adopting a value-added tax (VAT); however the proposals have yet to be enacted.

Palau is aware of increasing demands for the limited government resources and despite prioritizing, reallocation of funds and other cost cutting measures these efforts are simply not sufficient to bridge between revenue collection and budgetary requirements. The administration again will try to push through the previously introduced revenue generation measures including a few additional measures, i.e. room tax and visitor's departure tax increases as well as an increase of road use tax.

The current administration has tried to be more conservative in its revenue projection approach however the current size of the government in addition to rising costs has ultimately made it more difficult to balance the Budget at years end. The administration realizes that the only long term solution to the current imbalance in its revenue collection and expenditure is either enactment of new revenue sources or reduction in government "fixed costs", i.e. salary and wages and utilities or combination of both.

Looking beyond Fiscal Year 2012, revenue collections will gradually improve going forward. This can be attributed to the improving global economies as well as improved collections processes by the Bureau of Taxation and Customs. The recent implementation of the secured transactions registry in the financial sector is a positive step to diversify the economy and attract Foreign Direct Investment (FDI). In the short-term, this will enable the government to build up limited cash reserves and in the long-term will reduce the government's reliance on external grants.

#### **CONTACTING THE REPUBLIC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors a general overview of the Republic's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Minister of Finance, P.O. Box 6011, Koror, Republic of Palau 96940.

# REPUBLIC OF PALAU

## Statement of Net Assets September 30, 2012

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 10,783,582	\$ 13,699,747
Investments	2,961,316	-
Receivables, net of allowance for uncollectibles	9,369,947	13,882,091
Inventories	46,468	9,622,174
Due from primary government	-	2,529,252
Due from component units	3,000,000	-
Other current assets	692,276	402,565
Restricted assets:		
Cash and cash equivalents	305,232	-
Time certificates of deposit	-	452,281
Total current assets	<u>27,158,821</u>	<u>40,588,110</u>
Noncurrent assets:		
Investments	1,185,575	500,000
Receivables	-	19,875,334
Due from component units	1,000,000	-
Capital assets:		
Nondepreciable capital assets	22,012,718	2,751,523
Capital assets, net of accumulated depreciation	192,915,386	47,256,372
Foreclosed real estate	-	1,946,124
Other noncurrent assets	-	253,359
Restricted assets:		
Cash and cash equivalents	-	1,118,004
Investments	172,297,522	6,151,576
Total noncurrent assets	<u>389,411,201</u>	<u>79,852,292</u>
Total assets	<u>\$ 416,570,022</u>	<u>\$ 120,440,402</u>
<u>LIABILITIES</u>		
Current liabilities:		
Notes payable	\$ 198,142	\$ 30,000
Current portion of long-term obligations	1,599,998	2,713,930
Current portion of compensated absences payable	2,010,082	-
Accounts payable	6,176,466	8,791,792
Contracts payable	2,069,727	-
Due to State governments	2,545,271	-
Due to primary government	-	3,000,000
Due to component units	2,529,252	-
Due to external parties	6,103,129	307,393
Accrued payroll and others	3,331,810	1,821,376
Deferred revenue	1,107,369	1,264,272
Other liabilities	1,476,540	1,129,798
Income tax refunds	809,165	-
Total current liabilities	<u>29,956,951</u>	<u>19,058,561</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	23,129,883	41,363,447
Compensated absences payable, net of current portion	1,837,994	-
Due to U.S. Government	3,000,000	-
Due to primary government	-	1,000,000
Due to external parties	-	5,255,944
Total noncurrent liabilities	<u>27,967,877</u>	<u>47,619,391</u>
Total liabilities	<u>57,924,828</u>	<u>66,677,952</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	200,070,957	15,680,395
Restricted for:		
Future operations	171,796,541	-
Endowment	-	2,513,229
Debt service	-	3,661,576
Compact related	41,453	-
Other purposes	255,838	21,169,152
Unrestricted	(13,519,595)	10,738,098
Total net assets	<u>358,645,194</u>	<u>53,762,450</u>
Total liabilities and net assets	<u>\$ 416,570,022</u>	<u>\$ 120,440,402</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Statement of Activities Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
General government	\$ 21,535,629	\$ 6,746,216	\$ 1,944,886	\$ -	\$ (12,844,527)	\$ -
Education	15,933,447	-	6,302,833	-	(9,630,614)	-
Health and welfare	17,091,111	2,794,859	5,044,796	-	(9,251,456)	-
Public safety	3,733,438	63,665	127,248	-	(3,542,525)	-
Cultural affairs and recreation	6,054,443	1,847,920	305,167	-	(3,901,356)	-
Transportation and commerce	46,701,730	265,142	18,318,619	-	(28,117,969)	-
State government appropriations	4,735,883	-	-	-	(4,735,883)	-
Depreciation - unallocated	1,185,241	-	-	-	(1,185,241)	-
Interest	601,030	-	-	-	(601,030)	-
Total primary government	<u>\$ 117,571,952</u>	<u>\$ 11,717,802</u>	<u>\$ 32,043,549</u>	<u>\$ -</u>	<u>(73,810,601)</u>	<u>-</u>
Component units:						
National Development Bank of Palau	\$ 1,413,068	\$ 2,996,180	\$ 106,601	\$ -	-	1,689,713
Palau Community College	10,510,691	2,980,659	5,635,328	-	-	(1,894,704)
Palau National Communications Corporation	10,901,214	9,874,480	-	-	-	(1,026,734)
Palau International Coral Reef Center	921,716	339,934	336,696	-	-	(245,086)
Palau Visitors Authority	695,890	37,475	-	-	-	(658,415)
Public Utilities Corporation	28,119,632	25,638,820	-	2,109,104	-	(371,708)
Palau District Housing Authority	121,728	90,303	-	-	-	(31,425)
Protected Areas Network Fund	2,245,612	-	-	-	-	(2,245,612)
Total component units	<u>\$ 54,929,551</u>	<u>\$ 41,957,851</u>	<u>\$ 6,078,625</u>	<u>\$ 2,109,104</u>	<u>-</u>	<u>(4,783,971)</u>
General revenues:						
Taxes:						
Business gross receipts					12,066,499	-
Salary and wage					7,143,717	-
Alcohol and tobacco					5,663,182	-
Hotel occupancy					3,307,835	-
Travelers head					2,546,128	-
General import					2,107,327	-
Fuel export					697,133	-
Fish export					623,525	-
Other					1,642,273	-
Grants and contributions not restricted for specific programs					11,128,231	-
Unrestricted investment earnings					852,521	343,790
Contributions from primary government					-	5,519,818
Other					562,080	-
Total general revenues					<u>48,340,451</u>	<u>5,863,608</u>
Contributions to permanent funds					<u>31,507,618</u>	<u>-</u>
Total general revenues and contributions					<u>79,848,069</u>	<u>5,863,608</u>
Change in net assets					<u>6,037,468</u>	<u>1,079,637</u>
Net assets at beginning of year, as previously reported					<u>364,366,490</u>	<u>50,238,752</u>
Prior-period adjustment (Note 15)					<u>(11,758,764)</u>	<u>2,444,061</u>
Net assets at beginning of year, as restated					<u>352,607,726</u>	<u>52,682,813</u>
Net assets at end of year					<u>\$ 358,645,194</u>	<u>\$ 53,762,450</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Balance Sheet Governmental Funds September 30, 2012

	General	Special Revenue Grants	Permanent Compact Section 211(f)	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 10,783,582	\$ -	\$ -	\$ -	\$ 10,783,582
Investments	4,146,862	-	-	29	4,146,891
Receivables, net:					
Taxes	4,239,802	-	-	-	4,239,802
General	711,714	1,277	-	2,069	715,060
Federal agencies	-	3,802,268	-	-	3,802,268
Accrued interest	15,540	-	597,277	-	612,817
Due from component units	4,000,000	-	-	-	4,000,000
Due from other funds	1,865,661	1,432,423	1,902,793	448,239	5,649,116
Advances	123,207	146,404	-	480	270,091
Inventory	46,468	-	-	-	46,468
Prepaid items	24,318	377,454	-	20,413	422,185
Restricted assets:					
Cash and cash equivalents	305,232	-	-	-	305,232
Investments	-	-	169,296,471	3,001,051	172,297,522
	<u>\$ 26,262,386</u>	<u>\$ 5,759,826</u>	<u>\$ 171,796,541</u>	<u>\$ 3,472,281</u>	<u>\$ 207,291,034</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	5,186,831	799,270	-	190,365	6,176,466
Contracts payable	-	2,069,727	-	-	2,069,727
Due to State governments	2,545,271	-	-	-	2,545,271
Due to component units	8,632,381	-	-	-	8,632,381
Due to other funds	3,783,455	1,845,551	-	20,110	5,649,116
Accrued payroll and others	3,136,605	-	-	124	3,136,729
Other liabilities	1,390,849	85,691	-	-	1,476,540
Deferred revenues	180,454	926,915	-	-	1,107,369
Income tax refunds	809,165	-	-	-	809,165
Total liabilities	<u>25,863,153</u>	<u>5,727,154</u>	<u>-</u>	<u>210,599</u>	<u>31,800,906</u>
Fund balances:					
Nonspendable	2,256,361	377,454	171,796,541	20,413	174,450,769
Restricted	5,340,813	-	-	3,041,453	8,382,266
Committed	459,276	8,960	-	235,425	703,661
Unassigned:					
General fund	(7,657,217)	-	-	-	(7,657,217)
Special revenue funds	-	(353,742)	-	(35,609)	(389,351)
Total fund balances	<u>399,233</u>	<u>32,672</u>	<u>171,796,541</u>	<u>3,261,682</u>	<u>175,490,128</u>
	<u>\$ 26,262,386</u>	<u>\$ 5,759,826</u>	<u>\$ 171,796,541</u>	<u>\$ 3,472,281</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					214,928,104
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:					
				(24,729,881)	
				(3,848,076)	
				(195,081)	
				(3,000,000)	
					<u>(31,773,038)</u>
Net assets of governmental activities					<u>\$ 358,645,194</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) Governmental Funds Year Ended September 30, 2012

	General	Special Revenue Grants	Permanent Compact Section 211(f)	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 35,797,619	\$ -	\$ -	\$ -	\$ 35,797,619
Federal and other grants	-	30,043,549	-	-	30,043,549
Compact funding	11,128,231	2,000,000	-	-	13,128,231
Net change in the fair value of investments	849,188	-	31,507,618	3,333	32,360,139
Fees and charges	6,598,683	-	-	2,924,545	9,523,228
Licenses and permits	2,193,544	-	-	1,030	2,194,574
Other	562,080	-	-	-	562,080
Total revenues	57,129,345	32,043,549	31,507,618	2,928,908	123,609,420
Expenditures:					
Current:					
Judicial Branch	2,283,618	-	-	-	2,283,618
Legislative Branch	3,897,278	1,989	-	-	3,899,267
Office of the President	1,097,569	1,227,333	-	-	2,324,902
Office of the Vice-President	450,710	-	-	-	450,710
Ministry of Finance	2,856,316	91,095	-	-	2,947,411
Ministry of State	2,263,037	38,086	-	3,435	2,304,558
Ministry of Community and Cultural Affairs	1,009,613	1,372	-	1,108	1,012,093
Ministry of Education	6,847,558	4,302,833	-	-	11,150,391
Ministry of Public Infrastructure, Industry and Commerce	9,389,976	294,555	-	-	9,684,531
Ministry of Justice	4,031,242	127,248	-	56,120	4,214,610
Ministry of Health	7,901,061	5,044,796	-	2,689,564	15,635,421
Ministry of Natural Resources, Environment and Tourism	1,218,662	303,795	-	11,220	1,533,677
Boards, Commissions, and Authorities	2,581,703	-	-	-	2,581,703
State Block Grants	4,735,883	-	-	-	4,735,883
Independent Agencies	3,021,273	356,176	-	38,319	3,415,768
Other Agencies and Activities	2,466,893	-	-	-	2,466,893
Education assistance	4,577,473	-	-	-	4,577,473
Pension plan interest	330,971	-	-	-	330,971
Financial and Compliance Audit	97,500	68,500	-	-	166,000
Compact Review Office	148,722	-	-	-	148,722
Festival of Arts	59,508	-	-	-	59,508
Investment management fees	-	-	1,196,528	2,282	1,198,810
Capital projects	294,463	17,934,474	-	-	18,228,937
Debt service:					
Principal retirement	1,599,998	-	-	-	1,599,998
Interest	579,149	-	-	-	579,149
Total expenditures	63,740,176	29,792,252	1,196,528	2,802,048	97,531,004
Excess (deficiency) of revenues over (under) expenditures	(6,610,831)	2,251,297	30,311,090	126,860	26,078,416
Other financing sources (uses):					
Loan proceeds	9,872,734	-	-	-	9,872,734
Operating transfers in	7,456,903	-	-	-	7,456,903
Operating transfers out	-	(2,000,000)	(5,000,000)	(456,903)	(7,456,903)
Total other financing sources (uses), net	17,329,637	(2,000,000)	(5,000,000)	(456,903)	9,872,734
Net change in fund balances (deficit)	10,718,806	251,297	25,311,090	(330,043)	35,951,150
Fund balances (deficit) at beginning of year, as previously reported	(6,797,609)	(218,625)	146,485,451	3,591,725	143,060,942
Prior-period adjustment (Note 15)	(3,521,964)	-	-	-	(3,521,964)
Fund balances (deficit) at beginning of year, as restated	(10,319,573)	(218,625)	146,485,451	3,591,725	139,538,978
Fund balances at end of year	\$ 399,233	\$ 32,672	\$ 171,796,541	\$ 3,261,682	\$ 175,490,128

See accompanying notes to basic financial statements.

## REPUBLIC OF PALAU

### Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Year Ended September 30, 2012

Amounts reported for governmental activities in the statement of activities are different from changes in fund balances because:

Net change in fund balances - total governmental funds	\$ 35,951,150
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including decreases to construction in progress and transfers from construction in progress to infrastructure. For the current year, these activities consist of:

Capital outlays, net of disposals	\$ 5,868,264	
Depreciation expense, net	<u>(27,487,329)</u>	
		(21,619,065)

The incurrence of long-term debt (e.g., loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. For the current year, these amounts consist of:

Loan proceeds from ADB loan	\$ (9,872,734)	
Repayment of MICB loans	<u>1,599,998</u>	
		(8,272,736)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds. For the current year, these activities consist of:

Change in accrued interest payable	<u>(21,881)</u>
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Change in net assets of governmental activities.	\$ <u>6,037,468</u>
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See accompanying notes to basic financial statements.



**REPUBLIC OF PALAU**Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2012

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 3,197,088	\$ 658,313	\$ 3,855,401
Time certificate of deposit with an uninsured bank	-	1,452,609	1,452,609
Receivables, net:			
Contributions	6,648,321	3,238,696	9,887,017
Accrued interest and dividends	419,246	-	419,246
Other	24,354	1,107	25,461
Investments	76,979,612	32,100,018	109,079,630
Due from component units	5,563,337	-	5,563,337
Prepaid items	8,375	-	8,375
Capital assets, net	336,801	36,583	373,384
Total assets	<u>93,177,134</u>	<u>37,487,326</u>	<u>130,664,460</u>
<b><u>LIABILITIES</u></b>			
Benefits payable	286,435	-	286,435
Other liabilities and accruals	157,545	39,639	197,184
Total liabilities	<u>443,980</u>	<u>39,639</u>	<u>483,619</u>
<b><u>NET ASSETS</u></b>			
Held in trust for:			
Social security benefits	92,733,154	-	92,733,154
Pension benefits	-	37,447,687	37,447,687
Total net assets	<u>\$ 92,733,154</u>	<u>\$ 37,447,687</u>	<u>\$ 130,180,841</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended September 30, 2012

	Private Purpose Trust	Pension (and Other Employee Benefit) Trust	Total
Additions:			
Contributions:			
Government employees	\$ 8,788,469	\$ -	\$ 8,788,469
Private employees	5,861,534	-	5,861,534
Employer contributions	-	2,580,869	2,580,869
Plan member contributions	-	2,558,949	2,558,949
Penalties and interest	643,654	-	643,654
Other	77,220	-	77,220
	<u>15,370,877</u>	<u>5,139,818</u>	<u>20,510,695</u>
Allowance for doubtful accounts	<u>(328,828)</u>	<u>-</u>	<u>(328,828)</u>
Total contributions	<u>15,042,049</u>	<u>5,139,818</u>	<u>20,181,867</u>
Investment earnings:			
Net change in the fair value of investments	7,862,565	2,497,098	10,359,663
Interest and dividends	<u>2,473,269</u>	<u>2,303,680</u>	<u>4,776,949</u>
Total investment earnings	10,335,834	4,800,778	15,136,612
Less investment expense	<u>381,349</u>	<u>186,120</u>	<u>567,469</u>
Net investment earnings	<u>9,954,485</u>	<u>4,614,658</u>	<u>14,569,143</u>
Other	<u>304,937</u>	<u>89,283</u>	<u>394,220</u>
Total additions	<u>25,301,471</u>	<u>9,843,759</u>	<u>35,145,230</u>
Deductions:			
Benefits	12,245,584	8,123,193	20,368,777
General and administrative	<u>1,294,700</u>	<u>401,545</u>	<u>1,696,245</u>
Total deductions	<u>13,540,284</u>	<u>8,524,738</u>	<u>22,065,022</u>
Change in net assets	11,761,187	1,319,021	13,080,208
Net assets at beginning of year	<u>80,971,967</u>	<u>36,128,666</u>	<u>117,100,633</u>
Net assets at end of year	<u>\$ 92,733,154</u>	<u>\$ 37,447,687</u>	<u>\$ 130,180,841</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Combining Statement of Net Assets (Deficiency) Component Units September 30, 2012

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network Fund	Total
<u>Assets</u>									
Current assets:									
Cash and cash equivalents	\$ 7,597,730	\$ 475,487	\$ 442,762	\$ 290,035	\$ 191,779	\$ 3,702,550	\$ 833,400	\$ 166,004	\$ 13,699,747
Restricted time certificates of deposit	452,281	-	-	-	-	-	-	-	452,281
Receivables, net	4,658,115	3,490,706	1,484,220	166,650	13,197	3,872,802	196,401	-	13,882,091
Inventories	356,476	328,685	183,068	62,642	-	8,691,303	-	-	9,622,174
Due from primary government	-	659,551	-	-	-	-	-	1,869,701	2,529,252
Prepaid expenses	29,377	-	70,884	5,276	6,930	290,098	-	-	402,565
Total current assets	13,093,979	4,954,429	2,180,934	524,603	211,906	16,556,753	1,029,801	2,035,705	40,588,110
Noncurrent assets:									
Investments	-	-	500,000	-	-	-	-	-	500,000
Receivables	17,847,668	-	-	-	-	228,260	1,799,406	-	19,875,334
Capital assets:									
Nondepreciable capital assets	-	-	554,782	-	-	2,196,741	-	-	2,751,523
Capital assets, net of accumulated depreciation	709,249	1,470,161	18,523,280	2,044,268	64,865	24,423,327	10,558	10,664	47,256,372
Foreclosed real estate	1,946,124	-	-	-	-	-	-	-	1,946,124
Other noncurrent assets	201,809	-	51,550	-	-	-	-	-	253,359
Restricted assets:									
Cash and cash equivalents	716,561	276,599	-	-	-	124,844	-	-	1,118,004
Investments	-	2,490,000	3,661,576	-	-	-	-	-	6,151,576
Total noncurrent assets	21,421,411	4,236,760	23,291,188	2,044,268	64,865	26,973,172	1,809,964	10,664	79,852,292
Total assets	\$ 34,515,390	\$ 9,191,189	\$ 25,472,122	\$ 2,568,871	\$ 276,771	\$ 43,529,925	\$ 2,839,765	\$ 2,046,369	\$ 120,440,402
Current liabilities:									
Short-term note payable	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000
Current portion of long-term debt	613,852	-	1,572,477	-	-	527,601	-	-	2,713,930
Accounts payable	73,238	1,982,437	427,723	111,611	27,810	6,168,973	-	-	8,791,792
Due to primary government	3,000,000	-	-	-	-	-	-	-	3,000,000
Due to fiduciary funds	307,393	-	-	-	-	-	-	-	307,393
Accrued payroll and others	262,497	485,966	606,078	73,822	36,958	348,845	7,210	-	1,821,376
Deferred revenue	211,087	893,157	130,049	29,979	-	-	-	-	1,264,272
Other liabilities	-	-	673,133	-	-	456,665	-	-	1,129,798
Total current liabilities	4,498,067	3,361,560	3,409,460	215,412	64,768	7,502,084	7,210	-	19,058,561
Noncurrent liabilities:									
Long-term debt, net of current portion	6,153,846	-	27,131,154	-	-	8,078,447	-	-	41,363,447
Due to primary government	1,000,000	-	-	-	-	-	-	-	1,000,000
Due to fiduciary funds	5,255,944	-	-	-	-	-	-	-	5,255,944
Total noncurrent liabilities	12,409,790	-	27,131,154	-	-	8,078,447	-	-	47,619,391
Total liabilities	16,907,857	3,361,560	30,540,614	215,412	64,768	15,580,531	7,210	-	66,677,952
Net assets (deficiency):									
Invested in capital assets, net of related debt	709,249	1,470,161	(9,625,569)	2,044,268	64,865	20,996,199	10,558	10,664	15,680,395
Restricted:									
Endowment	-	2,513,229	-	-	-	-	-	-	2,513,229
Debt service	-	-	3,661,576	-	-	-	-	-	3,661,576
Other purposes	16,898,284	253,370	-	-	-	-	1,981,793	2,035,705	21,169,152
Unrestricted	-	1,592,869	895,501	309,191	147,138	6,953,195	840,204	-	10,738,098
Total net assets (deficiency)	17,607,533	5,829,629	(5,068,492)	2,353,459	212,003	27,949,394	2,832,555	2,046,369	53,762,450
	\$ 34,515,390	\$ 9,191,189	\$ 25,472,122	\$ 2,568,871	\$ 276,771	\$ 43,529,925	\$ 2,839,765	\$ 2,046,369	\$ 120,440,402

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficiency) Component Units Year Ended September 30, 2012

	National Development Bank of Palau	Palau Community College	Palau National Communications Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network	Total
Operating revenues:									
Charges for services	\$ 2,271,048	\$ 2,771,535	\$ 9,632,186	\$ 326,979	\$ -	\$ 25,029,665	\$ 82,507	\$ -	\$ 40,113,920
Grants and contributions	-	5,635,328	-	336,696	-	-	-	-	5,972,024
Other	725,132	209,124	242,294	12,955	37,475	609,155	7,796	-	1,843,931
Total operating revenues	2,996,180	8,615,987	9,874,480	676,630	37,475	25,638,820	90,303	-	47,929,875
Operating expenses:									
Cost of services	-	8,223,750	4,864,275	-	-	23,279,899	-	2,211,762	38,579,686
Depreciation	48,223	296,690	2,543,071	167,337	14,248	1,757,965	2,891	-	4,830,425
Administration costs	655,752	1,967,588	1,589,375	754,379	681,642	1,153,797	118,837	33,850	6,955,220
Total operating expenses	703,975	10,488,028	8,996,721	921,716	695,890	26,191,661	121,728	2,245,612	50,365,331
Operating income (loss)	2,292,205	(1,872,041)	877,759	(245,086)	(658,415)	(552,841)	(31,425)	(2,245,612)	(2,435,456)
Nonoperating revenues (expenses):									
Contributions from primary government	-	2,631,200	-	356,708	625,000	-	58,990	1,847,920	5,519,818
Net change in the fair value of investments	-	323,454	-	-	-	-	-	-	323,454
Interest income	4,623	-	12,312	70	-	2,358	973	-	20,336
Grant revenues	106,601	-	-	-	-	-	-	-	106,601
Interest expense	(557,512)	-	(1,328,295)	-	-	(480,755)	-	-	(2,366,562)
Other, net	(151,581)	(22,663)	(576,198)	-	-	(1,447,216)	-	-	(2,197,658)
Total nonoperating revenues (expenses), net	(597,869)	2,931,991	(1,892,181)	356,778	625,000	(1,925,613)	59,963	1,847,920	1,405,989
Capital contributions	-	-	-	-	-	2,109,104	-	-	2,109,104
Change in net assets (deficiency)	1,694,336	1,059,950	(1,014,422)	111,692	(33,415)	(369,350)	28,538	(397,692)	1,079,637
Net assets (deficiency) at beginning of year, as previously reported	15,913,197	4,769,679	(4,054,070)	2,241,767	245,418	28,318,744	2,804,017	-	50,238,752
Prior-period adjustment (Note 15)	-	-	-	-	-	-	-	2,444,061	2,444,061
Net assets (deficiency) at beginning of year, as restated	15,913,197	4,769,679	(4,054,070)	2,241,767	245,418	28,318,744	2,804,017	2,444,061	52,682,813
Net assets (deficiency) at end of year	\$ 17,607,533	\$ 5,829,629	\$ (5,068,492)	\$ 2,353,459	\$ 212,003	\$ 27,949,394	\$ 2,832,555	\$ 2,046,369	\$ 53,762,450

See accompanying notes to basic financial statements.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (1) Summary of Significant Accounting Policies

The Republic of Palau (the “Republic”) was constituted on January 1, 1981, under the provisions of the Constitution of the Republic of Palau (the “Constitution”) as approved by the people of Palau. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Republic assumes responsibility for general government, public safety, health, education, and economic development.

The accompanying basic financial statements of the Republic have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Republic’s accounting policies are described below.

#### A. Reporting Entity

The Government of the Republic is a constitutional government comprised of three branches: the Legislative Branch (Olbiil Era Kelulau (OEK)); the Executive Branch; and the Judicial Branch. The Legislative Branch consists of two houses which sit for four-year terms. The House of Delegates has 16 members, one from each state. The Senate has 13 members selected in a nationwide election. The Executive Branch consists of the President as the chief executive officer, the Vice-President, and the Council of Chiefs. The President is assisted by an 8 member Cabinet. The Judicial Branch is made up of the Supreme Court, the Land Court, and the Court of Common Pleas.

For financial reporting purposes, the Republic has included all funds, organizations, agencies, boards, commissions and institutions. The Republic has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the Republic are such that exclusion would cause the Republic’s basic financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the Republic, as the primary government, has appointed a voting majority of an organization’s governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Republic. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization’s governing board.

Each component unit of the Republic has a September 30 year-end except for the Palau National Communications Corporation, which has a December 31 year-end.

Component units are entities that are legally separate organizations for which the Republic’s elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the Republic are such that exclusion would cause the Republic’s basic financial statements to be misleading or incomplete. The Republic is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the Republic.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (1) Summary of Significant Accounting Policies, Continued

##### A. Reporting Entity, Continued

The financial statements of the component units have been included in the financial reporting entity as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The component units' column of the basic financial statements includes the financial data of the following discretely presented component units:

- National Development Bank of Palau (NDBP): NDBP was formed on February 24, 1982, under the provisions of RPPL No. 1-27, as amended by RPPL No. 3-4, RPPL No. 4-48, RPPL No. 5-37 and RPPL No. 6-18. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President of the Republic with the advice and consent of the OEK. The purpose of NDBP is to be the central financial institution responsible for initiating and promoting economic development within the Republic. The Republic guarantees principal and interest payments to the Republic of Palau Social Security Retirement Fund, the Mega International Commercial Bank (formerly the International Commercial Bank of China), and the European Investment Bank in the event of default by NDBP. The Republic has the ability to impose its will on NDBP.
- Palau Community College (PCC): PCC is a non-profit corporation established by RPPL No. 4-2, and inaugurated on June 3, 1993. Four voting members are appointed by the President of the Republic with the advice and consent of the Senate of the OEK. One voting member shall be a member of the Republic of Palau Board of Education as designated by the Republic Board of Education. Two non-voting members are appointed by the Board of Trustees to serve in an advisory capacity to the Board. The Board shall grant voting membership to one member from the RMI, one member from the FSM as designated by those governments. The Board shall grant voting membership to a student representative. The purpose of PCC, as defined by RPPL No. 4-2, is to be the institution of higher education for the Republic of Palau and to provide postsecondary educational opportunities to the people of the Republic of Palau, Federated States of Micronesia, Republic of the Marshall Islands, as well as students from other countries. The Republic provides financial support to PCC through legislative appropriations.
- Palau National Communications Corporation (PNCC): PNCC was created on August 23, 1982, under the provisions of RPPL No. 1-40. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President of the Republic, with the advice and consent of the Senate of the OEK. The primary purpose of PNCC is to establish and operate communication services as a communication common carrier within the Republic. The Republic guarantees principal and interest payments to the Rural Utilities Service in the event of default by PNCC on Rural Electrification and Telephone Revolving Fund loans. The Republic has the ability to impose its will on PNCC.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2012

### (1) Summary of Significant Accounting Policies, Continued

#### A. Reporting Entity, Continued

- Palau International Coral Reef Center (PICRC): PICRC was created on November 20, 1998 by RPPL No. 5-17. The law created a wholly-owned government non-profit corporation managed by a Board of Directors appointed by the President with the advice and consent of the Senate of the OEK. PICRC is to carry out marine research and educate the public about the ecological, economic and cultural importance of coral reefs and their associated marine habitats. The Republic provides financial support to PICRC through legislative appropriations.
- Public Utilities Corporation (PUC): PUC was created by RPPL No. 4-13 on July 6, 1994. The law created a wholly-owned government corporation managed by a Board of Directors appointed by the President with the advice and consent of the Senate of the OEK. The purpose of PUC is to establish and operate electrical utility services within the Republic. The Republic guarantees principal and interest payments to the Mega International Commercial Bank, and the National Development Bank of Palau in the event of default by PUC. The Republic has the ability to impose its will on PUC.
- Palau District Housing Authority (PDHA): PDHA was created by an act of the Congress of Micronesia in 1973, the "Territory Community Housing Act". PDHA is charged with the administration of the low-cost housing loan program in the Republic of Palau and is administered by a five-member Board of Directors appointed by the President of the Republic with the advice and consent of the Senate of the OEK. PDHA is authorized to finance and construct homes as needed. The Republic provides financial support to PDHA through legislative appropriations.
- Protected Areas Network Fund (PAN Fund): PAN Fund was formed on May 2, 2008, under the provisions of RPPL No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The law created a registered non-profit corporation under the Republic corporate registry managed by a Board of Directors, consisting of seven voting members and the Republic's Minister of Finance and Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the OEK. The Republic provides financial support to the PAN Fund through legislative appropriations.
- Palau Visitors Authority (PVA): PVA was formed on November 23, 1982, under the provisions of RPPL No. 1-49 for the purpose of implementing tourism programs, including marketing and related responsibilities. The law created a wholly-owned public corporation managed by a Board of Directors appointed by the President of the Republic with the advice and consent of the OEK. PVA is subject to annual appropriations by the OEK. The Republic provides financial support to PVA through legislative appropriations.

## REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2012

### (1) Summary of Significant Accounting Policies, Continued

#### A. Reporting Entity, Continued

In addition, the fiduciary component units are subject to legislative and executive controls. These component units, while meeting the definition of a component unit and while legally separate, are presented in the fund financial statements of the Republic. They have been omitted from the government-wide financial statements as their resources are not available to fund operations of the Republic. The fiduciary component units are as follows:

- The Republic of Palau Social Security Retirement Fund (the Fund), a Fiduciary Fund Type - Private Purpose Trust Fund, was created under Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic. The Fund provides retirement, disability, and death benefits to qualified individuals and their survivors. Further, the Fund was appointed responsibility under 41 PNC, Section 723, for the administration and operation of the Palau Healthcare Fund Program.
- The Republic of Palau Civil Service Pension Trust Fund (the Pension Fund), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, was created under RPPL No. 2-26, which was passed into law April 3, 1987, and began operations October 1, 1987. RPPL No. 2-26 was revised by RPPL No. 3-21, RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30, RPPL No. 6-37 and RPPL No. 7-56. The Pension Fund is administered under the authority of a seven member Board of Trustees appointed by the President with the advice and consent of the Senate of the Republic.

Complete financial statements for each of the individual component units may be obtained at the respective component units' administrative offices or obtaining them directly from the Office of the Public Auditor:

P.O. Box 850  
Koror, Palau 96940  
Website: [www.palauopa.org](http://www.palauopa.org)

#### B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.



## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (1) Summary of Significant Accounting Policies, Continued

##### B. Government-Wide Financial Statements, Continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similar to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* consists of resources in which the Republic is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted) to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.

The government-wide Statement of Net Assets reports \$172,093,832 of restricted net assets, of which \$255,838 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

##### C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (1) Summary of Significant Accounting Policies, Continued

#### C. Fund Financial Statements, Continued

The Republic reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

#### D. Measurement Focus and Basis of Accounting

*Government-Wide Financial Statements* - the government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

*Governmental Fund Financial Statements* - the governmental fund financial statements account for the general governmental activities of the Republic and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Republic considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

*Fiduciary funds and discretely presented component units financial statements* - the fiduciary funds and discretely presented component units financial statements are reported using the economic measurement focus and the accrual basis of accounting, similar to government-wide financial statements, as described above.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (1) Summary of Significant Accounting Policies, Continued

##### D. Measurement Focus and Basis of Accounting, Continued

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Republic's discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The Republic reports the following major funds:

- General Fund - This fund is the primary operating fund of the Republic. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Grants Fund - a Special Revenue Fund that accounts for grants received from the United States government and other donor countries.
- Compact Section 211(f) Fund - a Permanent Fund that accounts for funds provided pursuant to the Compact of Free Association, Section 211(f). Under the terms and conditions of Section 211(f) of the Compact and subsidiary agreements, the Republic may expend an agreed minimum annual distribution from accrued interest of the Fund. This amount has been determined to be \$5,000,000 annually for the first fifteen years of the Compact. The objective for the Fund is to allow annual distributions from accrued interest of \$15,000,000 annually after the fifteenth year of the Compact.

The nonmajor governmental funds are comprised of special revenue funds, which account for financial resources obtained from specific revenue sources and used for restricted purposes.

In addition, the Republic reports the following fund types:

- Private Purpose Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Social Security Retirement Fund under which principal and income benefit certain individuals.

# REPUBLIC OF PALAU

Notes to Financial Statements  
September 30, 2012

## (1) Summary of Significant Accounting Policies, Continued

### D. Measurement Focus and Basis of Accounting, Continued

- Pension (and Other Employee Benefit) Trust Fund - this fund accounts for resources held in trust by the Republic of Palau Civil Service Pension Trust Fund for members and beneficiaries of the Republic's pension plan.

### E. Cash and Cash Equivalents and Time Certificates of Deposit

The Republic pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash on hand, cash held in demand accounts as well as time certificates of deposit with a maturity date within three months of the date acquired by the Republic. Time certificates of deposit with original maturity dates greater than three months are separately classified.

### F. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

### G. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Republic for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies" on the governmental fund balance sheet.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the Republic. The Republic establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

### H. Inventories

Inventories of the primary government and the discretely presented component units comprise diesel fuel, parts and supplies and are generally valued at the lower-of-cost (FIFO) or market.

### I. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (1) Summary of Significant Accounting Policies, Continued

#### J. Interfund Receivables and Payables

During the course of its operations, the Republic records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental fund balance sheet and the statement of net assets. Interfund receivables and payables have been eliminated from the statement of net assets.

#### K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loans agreements, trust arrangements or enabling legislation.

Certain assets of the discretely presented component units are classified as restricted assets because their uses are restricted for economic development, capital projects, endowment funds and loan revolving programs.

#### L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land and non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1980, except for buildings. Accordingly, fixed assets records consist of additions commencing in fiscal year 1980. The Republic has elected to prospectively report general infrastructure assets in the government-wide financial statements and have retroactively reported all major general infrastructure assets at September 30, 2012.

Capital assets of the primary government and the component units are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Buildings and other improvements	15 - 50 years
Infrastructure	10 - 20 years
Vehicles	5 years
Machinery and equipment	4 - 20 years

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (1) Summary of Significant Accounting Policies, Continued

#### M. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

#### N. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

#### O. Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of 4 hours biweekly, if less than 3 years of service, 6 hours biweekly, if between 3 and 10 years of service, and 8 hours biweekly if over 10 years of service, limited to 45 working days.

#### P. Fund Equity

Fund balance classifications are based on the extent to which the Republic is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (1) Summary of Significant Accounting Policies, Continued

##### P. Fund Equity, Continued

- Unassigned includes negative fund balances in other governmental funds.

The Republic has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the Republic is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

##### Q. Risk Financing

The Republic is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, Republic management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Republic reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have occurred as a result of these policies in any of the past three fiscal years.

##### R. New Accounting Standards

During fiscal year 2012, the Republic implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (1) Summary of Significant Accounting Policies, Continued

##### R. New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Republic.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Republic.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Republic.



## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (1) Summary of Significant Accounting Policies, Continued

##### R. New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Republic.

##### S. Encumbrances

The Republic utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2012, the Republic has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants</u>	<u>Compact Section 211(f)</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 924,421	\$ 10,413,638	\$ -	\$ 317,159	\$ 11,655,218

##### T. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

##### U. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Republic's financial statements for the year ended September 30, 2011 from which summarized information was derived.

#### (2) Deposits and Investments

The deposit and investment policies of the Republic are governed by 40 PNCA Section 405, *Investment of Unobligated Balances*, in conjunction with various trust agreements. Under 40 PNCA Section 405, cash in excess of immediate needs shall at all times remain invested in accordance with the National Government Investment Plan, at the direction of the President; excess cash includes, but is not limited to, unobligated balances of appropriations and revenues collected in excess of appropriations.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (2) Deposits and Investments, Continued

The following investment policy governs investments of the Compact Section 211(f) Trust Fund:

- (i) Portfolio allocation targets are intended to be long term and strategic in nature. The Compact Trust Fund Board of Trustees (BOT) may make strategic or tactical adjustments to the existing overall fund allocation whenever deemed appropriate and recognizes that the actual allocation of the overall fund may vary considerably in the short term depending on current conditions. The targets are comprised of both historic and projected return and variability calculations for each asset class, subclass and investment style. The asset allocation reflects the BOT's philosophy that long term growth can best be achieved by investments in equity securities while balancing overall fund volatility and providing for the BOT's spending requirements by appropriate allocation to cash and fixed income securities:

<u>Asset class</u>	<u>Lower limit</u>	<u>Strategic Allocation</u>	<u>Upper limit</u>
Equities			
U.S. Core	40	50	60
Small Cap	5	15	25
Fixed Income			
U.S. Core	25	<u>35</u>	45
		<u>100%</u>	

- (ii) Individual investment managers are given tactical asset allocation flexibility within the constraints of their customized guidelines as set forth in their individual manager guidelines. Asset allocation targets in individual manager guidelines represent the BOT's desired long term, strategic allocation; the ranges represent the tactical asset allocation flexibility given to each manager to time short term market movements. In addition, while the foregoing directs minimum positions for different assets classes as a general policy, nothing herein shall preclude an investment manager from establishing lower invested levels while raising cash during adverse market conditions, if in his/her professional judgment such action is prudent to protect the principal of the fund.
- (iii) The target allocations will be evaluated on the basis of investment manager assets designated to each asset class rather than on an investment manager's current invested position. The BOT shall review the asset allocation and transfer funds among the various investment managers, no less frequently than annually to maintain the Fund's asset allocation within the respective ranges set forth above. A formal asset allocation study should be conducted at least every three years or as dictated by the capital markets to verify or amend the targets.

#### A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Republic's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Republic does not have a deposit policy for custodial credit risk.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (2) Deposits and Investments, Continued

##### A. Deposits, Continued

As of September 30, 2012, the carrying amount of the primary government's total cash and cash equivalents was \$11,088,814 and the corresponding bank balances were \$14,286,218. Of the bank balances, \$13,755,213 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012, bank deposits in the amount of \$951,835 were FDIC insured. The remaining bank deposits of \$531,005 are maintained in financial institutions not subject to depository insurance. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2012, the carrying amount of the fiduciary fund's total cash and cash equivalents and time certificates of deposit were \$5,308,010 and the corresponding bank balances were \$5,444,457. Of the bank balances, \$3,980,410 is maintained in financial institutions subject to FDIC insurance. The remaining bank deposits of \$1,464,047 are maintained in financial institutions not subject to depository insurance. As of September 30, 2012, bank deposits in the amount of \$1,854,099 were FDIC insured. The time certificates of deposit are collateralized by a first lien, existing now or in the future, on identified loans made by the uninsured bank in the amount of principal and interest equal to \$1,000,000; and a sole recourse first lien on 1,500 shares of common stock in a local company owned by a stockholder of the uninsured bank but not to exceed \$2,000,000. The Republic does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2012, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$15,270,032 and the corresponding bank balances were \$16,284,609. Of the bank balances, \$15,987,307 is maintained in financial institutions subject to FDIC insurance or held and administered by investment managers subject to Securities Investor Protection Corporation (SIPC) insurance. As of September 30, 2012, bank deposits in the amount of \$5,767,429 were FDIC or SIPC insured. The remaining bank deposits of \$297,302 are maintained in financial institutions not subject to depository insurance. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments

As of September 30, 2012, investments of the primary government recorded at fair value are as follows:

General Fund:

Money market funds	\$ <u>2,961,287</u>
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Compact Section 211(f) Trust Fund:

Fixed income	57,140,716
Equities	108,716,168
Money market funds	<u>3,439,587</u>

169,296,471

Nonmajor Governmental Funds:

Money market funds	<u>3,001,080</u>
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\$ 175,258,838

Additionally, the General Fund holds 11.06% of the shares of the United Micronesia Development Association, Inc. (UMDA) in the amount of \$1,185,575. As the fair market value of this investment is not readily available, such has been recorded at cost.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Republic will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Republic's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in the Republic's name by the Republic's custodial financial institutions at September 30, 2012.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Republic does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2012, there were no investments in any one issuer that exceeded 5% of total investments.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

As of September 30, 2012, maturities of investments in fixed income securities for the Compact Section 211(f) Trust Fund were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)				Ratings
		Less than 1 year	1 - 5 years	6 - 10 years	More than 10 years	
US treasury obligations	\$ 4,548,312	\$ -	\$ 1,540,419	\$ 1,308,524	\$ 1,699,369	AAA
US government agencies	18,809,097	-	1,742,125	1,716,168	15,350,804	AAA
Corporate bonds	3,497,481	-	682,675	-	2,814,806	AAA
Corporate bonds	3,947,726	331,469	1,023,013	851,953	1,741,291	AA+
Corporate bonds	2,304,041	-	134,832	848,890	1,320,319	AA
Corporate bonds	2,432,065	-	1,952,606	157,106	322,353	AA-
Corporate bonds	2,704,774	-	1,251,674	659,203	793,897	A+
Corporate bonds	4,366,275	443,200	908,835	1,529,947	1,484,293	A
Corporate bonds	4,288,212	-	2,252,388	738,716	1,297,108	A-
Corporate bonds	3,666,770	515,352	2,069,732	318,507	763,179	BBB+
Corporate bonds	2,430,662	-	444,609	1,266,395	719,658	BBB
Corporate bonds	1,474,639	-	322,255	768,212	384,172	BBB-
Corporate bonds	334,012	-	316,200	17,812	-	BB+
Corporate bonds	167,301	-	-	-	167,301	CCC
Corporate bonds	111,774	-	-	-	111,774	CC
Corporate bonds	132,022	-	-	-	132,022	C
Corporate bonds	749,245	-	-	-	749,245	D
Corporate Bonds	<u>1,176,308</u>	<u>-</u>	<u>309,700</u>	<u>-</u>	<u>866,608</u>	Not rated
	\$ 57,140,716	\$ 1,290,021	\$ 14,951,063	\$ 10,181,433	\$ 30,718,199	

As of September 30, 2012, investments of the Republic of Palau Social Security Retirement Fund recorded at fair value are as follows:

Equities	\$ 41,847,112
Fixed income	32,065,281
Money market funds	<u>3,067,219</u>
	\$ <u>76,979,612</u>

The deposit and investment policies of the Republic of Palau Social Security Retirement Fund are as follows:

Cash and Cash Equivalents:

- (A) Short-term investment funds;
- (B) U.S. Treasury and agency obligations;
- (C) Commercial paper rated by two nationally recognized rating agencies and at least one of the ratings is A1 or P1;

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (2) Deposits and Investments, Continued

##### B. Investments, Continued

###### Cash and Cash Equivalents, Continued:

- (D) Repurchase agreements with a maximum maturity of 180 days from financial institutions or securities dealers qualified to do business as set forth below. The repurchase agreements must be collateralized at least 102% with allowable securities as set forth in the Fund's investment policy, except in the case of "due bills" which are collateralized by the financial institution's or dealer's entire inventory:
  - a) Banks must have achieved a Bankwatch/International Bank Credit Analyst rating of B or better for bank investments.
  - b) Brokers/Dealers must appear on the Primary Government Dealer list; and
- (E) Certificates of deposit or banker's acceptances issued by financial institutions with commercial paper rating of at least P1 by Moody's Investor Service (Moody's) or A1 by Standard & Poor's (S&P).

###### U.S. Fixed Income:

- (A) Bonds, notes, and pass through securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
- (B) U.S. corporate bonds and nonconvertible preferred stock rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
- (C) Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
- (D) Debt issued by foreign entities in the U.S. provided that both principal and interest are payable in U.S. dollars and provided that such debt is rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
- (E) The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager; and
- (F) No type of security that has been in the market for less than ten years may be purchased without prior written approval of the Fund's Board of Trustees.

###### U.S. Large Cap Equities:

- (A) Common stock and convertible securities of U.S. Corporations provided they are listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Automated Quotation (NASDAQ) with a market capitalization (at time of purchase) that falls within the range of the Russell 1000 Index;

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

##### U.S. Large Cap Equities, Continued:

- (B) American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;
- (C) Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- (D) An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

##### International Equities:

- (A) Equity securities of Corporations provided they are listed on the stock exchange of countries included in the MSCI EAFE Index;
- (B) Equity securities of companies from countries included in the MSCI EMF Index are allowed, provided that the total investment in these companies does not exceed 15% of the total market value of the assets managed by the Fund's investment manager;
- (C) ADR's, EDR's and GDR's relating to any of the above are allowable; and
- (D) Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

As of September 30, 2012, maturities of investments in fixed income securities for the Republic of Palau Social Security Retirement Fund were as follows:

Investment Type	Investment Maturities (In Years)					Credit Rating
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 2,699,051	\$ -	\$ 1,888,831	\$ 293,633	\$ 516,587	Aaa
U.S. government obligations	3,498,282	-	943,921	2,054,628	499,733	Aaa
Mortgage-backed securities	6,389,128	-	12,862	88,035	6,288,231	Aaa
Municipal obligations	587,964	-	170,868	-	417,096	Aa1
Municipal obligations	1,278,437	-	50,185	795,076	433,176	AA
Municipal obligations	1,381,810	-	467,388	384,146	530,276	A
Corporate bonds	2,352,128	200,342	989,121	-	1,162,665	AAA
Corporate bonds	5,381,365	527,539	2,504,516	1,426,219	923,091	AA
Corporate bonds	5,145,654	260,415	3,192,558	677,517	1,015,164	A
Corporate bonds	3,316,453	880,110	2,106,163	330,180	-	BBB
Corporate bonds	35,009	35,009	-	-	-	Unrated
	<u>\$ 32,065,281</u>	<u>\$ 1,903,415</u>	<u>\$ 12,326,413</u>	<u>\$ 6,049,434</u>	<u>\$ 11,786,019</u>	

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (2) Deposits and Investments, Continued

##### B. Investments, Continued

As of September 30, 2012, investments of the Republic of Palau Civil Service Pension Trust Fund recorded at fair value are as follows:

Equities	\$ 20,359,373
Fixed income	10,932,139
Money market funds	<u>808,506</u>
	\$ <u>32,100,018</u>

The deposit and investment policies of the Republic of Palau Civil Service Pension Trust Fund are as follows:

1. Any pertinent restrictions existing under the laws of the ROP with respect to the Fund, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.
3. No individual security or any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any investment manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.
6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

Investments may be made in the following investment types:

##### Fixed Income:

- (A) All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.



# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

##### Fixed Income, Continued:

- (B) No more than 20% of the market value of the portfolio shall be rated less than single “A” quality, unless the investment manager has specific prior written authorization from the Board of Trustees.
- (C) Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than “A”.
- (D) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these Local CDs are held, they will be included in the “strategic asset allocation” as fixed income investments. However, these Local CDs and the local banking institutions must meet the following criteria on an ongoing basis:
  - a) Local CDs must offer a competitive return relative to alternative issuers.
  - b) The local banking institutions must provide annual audited financial statements for Board of Trustee review. The Board of Trustees is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, the Board of Trustees shall take appropriate action.
  - c) The local banking institution shall promptly inform the Board of Trustees, in writing, of any significant or material matters pertaining to the institution, including, but not limited to: ownership; organizational structure; financial condition; and, any material proceedings affecting the firm.
  - d) Provide collateral, acceptable to the Board, to secure the Local CDs.

##### Equities:

- (A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.
- (B) Equity holdings shall be restricted to readily marketable securities of corporations that are traded on the major exchanges and over the counter.
- (C) The investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the IPS, they will be evaluated against their performance benchmarks and peers on the performance of the total funds under their direct management.
- (D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

# **REPUBLIC OF PALAU**

Notes to Financial Statements  
September 30, 2012

## (2) Deposits and Investments, Continued

### B. Investments, Continued

Cash/Cash Equivalents:

- (A) Cash equivalent reserves shall consist of cash instruments having a credit quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Banker Acceptances, Certificate of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.
- (B) In the case of Certificates of Deposit, except as discussed under Fixed Income with respect to the Local CDs, they must be issued by FDIC insured institutions. Deposits in institutions with less than \$10 million in assets may not be made in excess of \$100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.
- (C) No single issue shall have a maturity of greater than two years.
- (D) Custodial Sweep Account portfolios must have an average maturity of less than one year.

As of September 30, 2012, maturities of investments in fixed income securities for the Republic of Palau Civil Service Pension Trust Fund were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Mortgage-backed securities	\$ 4,667,138	\$ -	\$ -	\$ 528,180	\$ 4,138,958	AAA
Government bonds	340,933	-	-	-	340,933	AAA
Corporate bonds	520,677	-	-	520,677	-	AA+
Corporate bonds	80,084	-	-	80,084	-	AA-
Corporate bonds	164,916	-	-	164,916	-	A+
Corporate bonds	1,122,547	-	-	1,122,547	-	A
Corporate bonds	3,766,319	-	-	3,766,319	-	A-
Corporate bonds	<u>269,525</u>	<u>-</u>	<u>-</u>	<u>269,525</u>	<u>-</u>	BBB+
	<u>\$ 10,932,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,452,248</u>	<u>\$ 4,479,891</u>	

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

As of September 30, 2012, investments of the discretely presented component units are as follows:

Palau Community College (PCC):

	<u>Actual Allocation</u>	<u>Allocation Per Policy</u>	<u>Fair Value</u>
Fixed income	31%	30%	\$ 767,399
Domestic equities	45%	45%	1,117,328
Non-U.S. equities	24%	25%	<u>605,273</u>
			\$ <u>2,490,000</u>

Maturities of investments in fixed income securities for PCC's fixed income (money market funds) investments, by percentage of portfolio, are presented in the following table:

<u>Investment Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 year	11.0%
1 - 5 years	41.0%
5 - 9 years	26.0%
9 or more years	<u>22.0%</u>
	<u>100.0%</u>

PCC's fixed income investments at September 30, 2012, were rated as follows:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Government Agency	56.6%
AA	13.0%
A+	6.2%
A	1.9%
A-	3.9%
BBB+	3.1%
BBB	6.4%
BBB-	8.6%
CCC+	<u>0.3%</u>
	<u>100.0%</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

Palau National Communications Corporation (PNCC):

	<u>Actual Allocation</u>	<u>Allocation Per Policy</u>	<u>Fair Value</u>
Cash deposits	12%	10%	\$ 57,974
Fixed income	29%	30%	145,229
Domestic equities	49%	50%	247,197
Non-U.S. equities	10%	10%	<u>49,600</u>
			\$ <u>500,000</u>

As of December 31, 2012, maturities of investments in fixed income securities for PNCC were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Ratings</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	<u>Moody</u>	<u>Standard &amp; Poor's</u>
Government securities	\$ 7,316	\$ -	\$ 7,316	\$ -	\$ -	AAA	No rating
Government securities	8,493	-	8,493	-	-	AAA	No rating
Government securities	8,936	-	8,936	-	-	AAA	No rating
Government securities	12,820	-	-	12,820	-	AAA	No rating
Government securities	4,044	-	-	4,044	-	AAA	No rating
Government securities	5,736	-	-	-	5,736	AAA	No rating
Government securities	4,105	-	-	-	4,105	AAA	No rating
Federal agencies	11,676	-	11,676	-	-	AAA	AA+
Federal agencies	13,546	-	13,546	-	-	AAA	AA+
Corporate bonds	4,278	-	4,278	-	-	A2	A
Corporate bonds	4,274	-	4,274	-	-	A-3	BBB+
Corporate bonds	5,004	-	-	5,004	-	BBA2	BBB-
Corporate bonds	4,996	-	-	4,996	-	A2-	A-
Corporate bonds	5,128	-	-	5,128	-	A1	AA
Corporate bonds	5,119	-	-	5,119	-	A3	A-
Corporate bonds	4,650	-	-	4,650	-	A3	A-
Corporate bonds	4,014	-	-	4,014	-	BAA3	BBB
Corporate bonds	4,311	-	-	4,311	-	A2	A+
Corporate bonds	4,338	-	-	4,338	-	BAA3	BBB-
Corporate bonds	5,090	-	-	5,090	-	BAA1	BBB
Corporate bonds	4,045	-	-	-	4,045	BAA2	BBB+
Corporate bonds	4,149	-	-	-	4,149	A2	A
Corporate bonds	4,227	-	-	-	4,227	A1	A
Corporate bonds	<u>4,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,934</u>	<u>A1</u>	<u>AA+</u>
	\$ <u>145,229</u>	\$ <u>-</u>	\$ <u>58,519</u>	\$ <u>59,514</u>	\$ <u>27,196</u>		

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

As of September 30, 2012, PNCC maintained investments in short-term money market mutual funds of \$3,661,576 held by the Bank of New York Mellon, an FDIC insured financial institution. Although these mutual funds are not insured by the FDIC, the mutual fund portfolio consists of U.S. Treasury bills and obligations guaranteed by the U.S. Department of the Treasury as well as repurchase agreements which are fully collateralized by such obligations. This mutual fund has a weighted average maturity of 45 days and is rated AAAM by Standard and Poor's and AAA-mf by Moody's.

### (3) Receivables

#### Primary Government

Receivables as of September 30, 2012, for the primary government's individual major funds, and nonmajor governmental funds and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Grants	Compact Section 211(f)	Nonmajor Governmental Funds	Fiduciary Funds	Total
Taxes	\$ 4,239,802	\$ -	\$ -	\$ -	\$ -	\$ 4,239,802
General	1,578,714	1,277	-	13,734,579	11,628,786	26,943,356
Federal agencies	-	3,802,268	-	-	-	3,802,268
Accrued interest	15,540	-	597,277	-	419,246	1,032,063
Other	-	-	-	-	25,461	25,461
	<u>5,834,056</u>	<u>3,803,545</u>	<u>597,277</u>	<u>13,734,579</u>	<u>12,073,493</u>	<u>36,042,950</u>
Less: allowance for uncollectibles	<u>(867,000)</u>	<u>-</u>	<u>-</u>	<u>(13,732,510)</u>	<u>(1,741,769)</u>	<u>(16,341,279)</u>
Net receivables	<u>\$ 4,967,056</u>	<u>\$ 3,803,545</u>	<u>\$ 597,277</u>	<u>\$ 2,069</u>	<u>\$ 10,331,724</u>	<u>\$ 19,701,671</u>

#### Discretely Presented Component Units

Receivables as of September 30, 2012, for the discretely presented component units', including applicable allowances for uncollectible accounts, are as follows:

	National Development Bank of Palau	Palau Community College	Palau National Communi- cations Corporation	Palau International Coral Reef Center	Palau Visitors Authority	Public Utilities Corporation	Palau District Housing Authority	Protected Areas Network Fund	Total
General	\$ -	\$ 2,327,358	\$ 5,434,336	\$ -	\$ -	\$ 4,148,336	\$ 5,684	\$ -	\$11,915,714
Federal agencies	-	2,065,169	-	142,345	-	-	30,375	-	2,237,889
Loans	24,115,901	-	-	-	-	-	2,038,152	-	26,154,053
Accrued interest	232,728	-	-	-	-	-	9,590	-	242,318
Other	<u>880,664</u>	<u>246,653</u>	<u>133,146</u>	<u>70,861</u>	<u>14,436</u>	<u>362,726</u>	<u>-</u>	<u>-</u>	<u>1,708,486</u>
	<u>25,229,293</u>	<u>4,639,180</u>	<u>5,567,482</u>	<u>213,206</u>	<u>14,436</u>	<u>4,511,062</u>	<u>2,083,801</u>	<u>-</u>	<u>42,258,460</u>
Less allowance for uncollectible	<u>(2,723,510)</u>	<u>(1,148,474)</u>	<u>(4,083,262)</u>	<u>(46,556)</u>	<u>(1,239)</u>	<u>(410,000)</u>	<u>(87,994)</u>	<u>-</u>	<u>(8,501,035)</u>
	<u>\$ 22,505,783</u>	<u>\$ 3,490,706</u>	<u>\$ 1,484,220</u>	<u>\$ 166,650</u>	<u>\$ 13,197</u>	<u>\$ 4,101,062</u>	<u>\$ 1,995,807</u>	<u>\$ -</u>	<u>\$ 33,757,425</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (3) Receivables, Continued

#### Discretely Presented Component Units, Continued

##### National Development Bank of Palau (NDBP):

NDBP's loan portfolio is comprised of economic development loans under various loan programs, including housing, business, and energy efficiency subsidy loan programs. All loans are at fixed rates with interest rates primarily ranging from 6% per annum for microfinance, pre-development, and agriculture loans to 10% per annum for housing and business loans.

### (4) Interfund Receivables and Payables

#### Primary Government

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2012, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants	\$ 1,845,551
General	Nonmajor governmental funds	20,110
Grants	General	1,432,423
Compact Section 211(f)	General	1,902,793
Nonmajor governmental funds	General	<u>448,239</u>
		<u>\$ 5,649,116</u>

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

Receivables and payables between funds reflected as due to/from component units at September 30, 2012, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Republic of Palau Social Security Retirement Fund	\$ -	\$ 2,955,413
Republic of Palau Civil Service Pension Trust Fund	-	3,147,716
National Development Bank of Palau	4,000,000	-
Palau Community College	-	659,551
Protected Areas Network Fund	<u>-</u>	<u>1,869,701</u>
	<u>4,000,000</u>	<u>8,632,381</u>
Republic of Palau Social Security Retirement Fund:		
National Development Bank of Palau	<u>5,563,337</u>	<u>-</u>
	<u>\$ 9,563,337</u>	<u>\$ 8,632,381</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (4) Interfund Receivables and Payables, Continued

#### Primary Government, Continued

The amount recorded by the General Fund represents a loan due from the National Development Bank of Palau (NDBP) in the initial amount of \$4,000,000 for the two-fold purpose of: (1) financing a loan to the Palau National Communications Corporation (PNCC) for the acquisition of underwater fiber-optic cable for \$3,000,000; and (2) financing additional NDBP lending activities. The loan is uncollateralized and is due and payable on May 17, 2022, with interest fixed at 2% per annum, payable in monthly installments. Principal payments commence thirty-six months after the advance of proceeds over the remaining period of the loan term; however, any principal payments received from PNCC within the first thirty-six months will be paid by NDBP to the Republic.

On March 18, 2013, NDBP received a letter from PNCC stating that PNCC will not be able to activate the loan earmarked for \$3,000,000. In turn, the Republic requested NDBP to return the \$3,000,000. Accordingly, this portion of the total loan due from NDBP is classified as a current liability.

The amount recorded by the Republic of Palau Social Security Retirement Fund (the Fund) due from NDBP of \$5,563,337 represents a loan agreement entered into in the initial amount of \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time. On August 7, 2008, the Fund entered into a new agreement to restructure the existing loan with NDBP with the loan ceiling increasing to \$6,000,000. Principal and interest are payable in equal semi-annual installments of \$554,392 through December 31, 2025, with interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, that the interest rate to be charged and paid by NDBP shall not be less than 4.5% per annum nor more than 7.5% per annum after addition of the 0.5% to the prime rate. The loan is collateralized by the full faith and credit of the Republic.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 307,393	\$ 246,999	\$ 554,392
2014	321,401	232,991	554,392
2015	336,025	218,367	554,392
2016	350,772	203,620	554,392
2017	367,279	187,113	554,392
2018 - 2022	2,102,452	669,509	2,771,961
2023 - 2026	<u>1,778,015</u>	<u>162,375</u>	<u>1,940,390</u>
	<u>\$ 5,563,337</u>	<u>\$ 1,920,974</u>	<u>\$ 7,484,311</u>

The amount recorded as due to component units of the primary government of \$8,632,381 does not equal the corresponding due from primary government of the discretely presented component units of \$2,529,252 due to the recording of liabilities by the General Fund to the Republic of Palau Social Security Retirement Fund and the Republic of Palau Civil Service Pension Trust Fund of \$2,955,413 and \$3,147,716, respectively, which are recorded as contributions receivable within the fiduciary funds.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (4) Interfund Receivables and Payables, Continued

#### Discretely Presented Component Units

Receivables and payables between funds reflected as due to/from primary government at September 30, 2012, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
National Development Bank of Palau:		
General Fund	\$ -	\$ 4,000,000
Republic of Palau Social Security Retirement Fund	-	5,563,337
Palau Community College:		
General Fund	659,551	-
Protected Areas Network Fund:		
General Fund	<u>1,869,701</u>	<u>-</u>
	<u>\$ 2,529,252</u>	<u>\$ 9,563,337</u>

### (5) Capital Assets

Capital asset activities for the year ended September 30, 2012, are as follows:

#### Primary Government

	Balance at October 1, 2011	Additions	Deletions and Transfers	Balance at September 30, 2012
Depreciable capital assets:				
Buildings and other improvements	\$ 139,191,458	\$ 428,097	\$ 3,405,367	\$ 143,024,922
Machinery and equipment	22,450,752	2,031,585	-	24,482,337
Vehicles	6,508,465	8,288	-	6,516,753
Infrastructure	<u>238,222,337</u>	<u>2,668,472</u>	<u>2,736,385</u>	<u>243,627,194</u>
Total capital assets being depreciated	<u>406,373,012</u>	<u>5,136,442</u>	<u>6,141,752</u>	<u>417,651,206</u>
Accumulated depreciation:				
Buildings and other improvements	(48,197,763)	(6,834,942)	-	(55,032,705)
Machinery and equipment	(16,174,711)	(3,437,835)	203,644	(19,408,902)
Vehicles	(4,608,916)	(743,190)	230,063	(5,122,043)
Infrastructure	<u>(115,911,901)</u>	<u>(29,260,269)</u>	<u>-</u>	<u>(145,172,170)</u>
Total accumulated depreciation	<u>(184,893,291)</u>	<u>(40,276,236)</u>	<u>433,707</u>	<u>(224,735,820)</u>
Total depreciable capital assets, net	<u>221,479,721</u>	<u>(35,139,794)</u>	<u>6,575,459</u>	<u>192,915,386</u>
Non-depreciable capital assets:				
Land	3,691,850	158,444	-	3,850,294
Construction in progress	<u>11,375,598</u>	<u>13,688,261</u>	<u>(6,901,435)</u>	<u>18,162,424</u>
Total non-depreciable capital assets	<u>15,067,448</u>	<u>13,846,705</u>	<u>(6,901,435)</u>	<u>22,012,718</u>
Capital assets, net	<u>\$ 236,547,169</u>	<u>\$ (21,293,089)</u>	<u>\$ (325,976)</u>	<u>\$ 214,928,104</u>



# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (5) Capital Assets, Continued

#### Primary Government, Continued

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

General government	\$ 446,427
Education	359,148
Health and welfare	1,621,571
Public safety	1,252,335
Cultural affairs and recreation	700,875
Transportation and commerce	34,710,639
Unallocated	<u>1,185,241</u>
Total depreciation expense	\$ <u>40,276,236</u>

#### Fiduciary Funds

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Depreciable capital assets:					
Office equipment and furniture	4 - 13 yrs	\$ 467,966	\$ 21,336	\$ -	\$ 489,302
Building and improvements	30 yrs	132,315	-	-	132,315
Vehicles	5 yrs	<u>110,344</u>	<u>-</u>	<u>-</u>	<u>110,344</u>
		710,625	21,336	-	731,961
Less accumulated depreciation		<u>(486,288)</u>	<u>(79,307)</u>	<u>-</u>	<u>(565,595)</u>
Total depreciable capital assets, net		224,337	(57,971)	-	166,366
Non-depreciable capital assets:					
Land		<u>207,018</u>	<u>-</u>	<u>-</u>	<u>207,018</u>
		\$ <u>431,355</u>	\$ <u>(57,971)</u>	\$ <u>-</u>	\$ <u>373,384</u>

#### Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012
Depreciable capital assets:					
Buildings	3 - 30 yrs	\$ 20,929,030	\$ 25,224	\$ -	\$ 20,954,254
Utility plant	2 - 30 yrs	106,475,456	3,000,839	(3,415,785)	106,060,510
Machinery and equipment	2 - 20 yrs	3,283,320	447,281	(517,186)	3,213,415
Infrastructure	2 - 15 yrs	<u>3,728,744</u>	<u>6,547</u>	<u>(541,156)</u>	<u>3,194,135</u>
		<u>134,416,550</u>	<u>3,479,891</u>	<u>(4,474,127)</u>	<u>133,422,314</u>
Less accumulated depreciation		<u>(83,980,013)</u>	<u>(4,830,425)</u>	<u>2,644,496</u>	<u>(86,165,942)</u>
Total depreciable capital assets, net		50,436,537	(1,350,534)	(1,829,631)	47,256,372
Nondepreciable capital assets:					
Construction in progress		<u>431,241</u>	<u>2,538,337</u>	<u>(218,055)</u>	<u>2,751,523</u>
		\$ <u>50,867,778</u>	\$ <u>1,187,803</u>	\$ <u>(2,047,686)</u>	\$ <u>50,007,895</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (6) Notes Payable

#### Primary Government

On June 28, 2002, the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$160,000 for the purpose of funding overdraft facilities. Although the loan was due on May 20, 2004, including interest at 7% per annum, \$198,142 remains outstanding at September 30, 2012. This loan is in noncompliance with local requirements since only the President of the Republic is authorized to enter into debt agreements.

#### Discretely Presented Component Units

National Development Bank of Palau (NDBP):

NDBP entered into a \$300,000 revolving credit line on October 27, 2007, for the purpose of supplementing disbursements of approved loans and temporary cash requirements for operations. On October 21, 2008, NDBP renewed the credit line under essentially the same terms and conditions. The loan is payable one year from initial drawdown with interest at the time certificate of deposit (TCD) rate plus 1.50%. The loan is collateralized by assignment of \$452,281 in TCDs.

Changes in short-term note payable of NDBP for the year ended September 30, 2012, is as follows:

Balance at October 1, 2011	Additions	Reductions	Balance at September 30, 2012
\$ <u>300,000</u>	\$ <u>-</u>	\$ <u>(270,000)</u>	\$ <u>30,000</u>

### (7) Long-Term Obligations

#### Primary Government

As of September 30, 2012, the primary government had the following long-term debt outstanding:

Mega International Commercial Bank (MICB):

Loan payable to MICB, formerly the International Commercial Bank of China, in the amount of \$20,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$571,429 plus interest, due June 21, 2020. This loan was used for construction of a new national capital in Melekeok State and is uncollateralized. \$ 9,142,849

Loan payable to the MICB in the amount of \$8,000,000, interest at 3.5% per annum, principal payable in semi-annual installments of \$228,570 plus interest, due October 28, 2024. This loan was used to fund the Palau International Airport Repaving Project and is uncollateralized. 5,714,298

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (7) Long-Term Obligations, Continued

#### Primary Government, Continued

##### Asian Development Bank (ADB):

Loan Number 2691 RMI - Water Sector Improvement Loan (\$12,600,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (5.03% at September 30, 2012), a front-end fee of 1%, and a commitment charge of 0.15% per annum on the amount of the loan unwithdrawn from the Loan Account. Semi-annual loan payments commence May 1, 2014 with graduated increases of 5% through November 1, 2025. 6,400,000

Loan Number 2692 PAL (SF) - Water Sector Improvement Loan (SDR 2,230,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence on May 1, 2019 in an amount of SDR 69,688, at which time the service charge increases to 1.5% per annum. 3,472,734

\$ 24,729,881

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,599,998	\$ 872,307	\$ 2,472,305
2014	1,743,812	816,307	2,560,119
2015	1,909,558	748,980	2,658,538
2016	1,941,288	676,547	2,617,835
2017	1,976,269	602,428	2,578,697
2018 - 2022	9,019,184	1,931,888	10,951,072
2023 - 2027	4,911,929	518,900	5,430,829
2028 - 2032	1,085,230	85,494	1,170,724
2033 - 2035	<u>542,613</u>	<u>12,229</u>	<u>554,842</u>
	<u>\$ 24,729,881</u>	<u>\$ 6,265,080</u>	<u>\$ 30,994,961</u>

As provided for in the Compact of Free Association, the Republic was awarded \$3,000,000, which it had agreed to repay in financial year 2005. On May 8, 2008, the U.S. Congress approved the forgiveness of the debt. The terms and conditions require the Republic to establish a trust fund wherein the Republic agrees to utilize the earnings of the trust fund solely for maintenance and upkeep of the Compact Road. The Republic has not established a trust fund as of September 30, 2012 and therefore has restricted assets of \$3,001,051 in the other governmental funds (Compact Section 211(b) Energy Fund) to fund this repayment in the event the terms and conditions of the forgiveness of the debt are not met. This debt of \$3,000,000 is presented as a long-term liability at the government-wide level until the terms and conditions are met (see Note 9).

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (7) Long-Term Obligations, Continued

#### Primary Government, Continued

Changes in long-term liabilities of the primary government for the year ended September 30, 2012, are as follows:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Loans payable:					
MICB loans	\$ 16,457,145	\$ -	\$ (1,599,998)	\$ 14,857,147	\$ 1,599,998
ADB loans	-	9,872,734	-	9,872,734	-
	16,457,145	9,872,734	(1,599,998)	24,729,881	1,599,998
Other:					
Compensated absences	3,848,076	5,052,777	(5,052,777)	3,848,076	2,010,082
Due to U.S. Government	3,000,000	-	-	3,000,000	-
	<u>\$ 23,305,221</u>	<u>\$ 14,925,511</u>	<u>\$ (6,652,775)</u>	<u>\$ 31,577,957</u>	<u>\$ 3,610,080</u>

#### Discretely Presented Component Units

National Development Bank of Palau (NDBP):

Loan payable to the Mega International Commercial Bank (MICB) in the amount of \$5,000,000, due July 1, 2024 with interest at 3.5% per annum, principal payable in semi-annual installments of \$142,858 plus interest. This loan was used to fund various loan programs of NDBP and is guaranteed by the Republic.

\$ 3,428,121

Loan payable to the European Investment Bank (EIB) up to the amount of 5,000,000 Euro, due September 10, 2021 with interest at 3.679% - 5.175% per annum, principal and interest payable in semi-annual installments of \$234,750. Of the original amount, 3,260,573 Euro was drawn down in two tranches (\$1,391,285 and \$3,016,465, respectively). The loan is guaranteed by the Republic. On December 12, 2011, EIB cancelled the remaining balance of NDBP's credit line of 1,739,427 Euro.

3,339,577

\$ 6,767,698

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 613,852	\$ 256,396	\$ 870,248
2014	627,572	232,644	860,216
2015	641,881	208,301	850,182
2016	656,807	183,340	840,147
2017	672,375	157,734	830,109
2018 - 2022	2,983,845	385,951	3,369,796
2023 - 2025	<u>571,366</u>	<u>19,998</u>	<u>591,364</u>
	<u>\$ 6,767,698</u>	<u>\$ 1,444,364</u>	<u>\$ 8,212,062</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (7) Long-Term Obligations, Continued

#### Discretely Presented Component Units, Continued

##### Palau National Communications Corporation (PNCC):

Loan payable to the Rural Utilities Services (RUS) up to the amount of \$39,143,000, due October 2029 with interest at 4.59% per annum, principal and interest payable in monthly installments of \$192,181, including interest. The loan is guaranteed by the Republic, is collateralized by substantially all PNCC assets and a pledge of PNCC revenues.

\$ 26,391,326

Loan payable to Chunghwa Telecom Company due July 2017, non-interest bearing, principal payable in monthly installments of \$34,087 (net of unamortized discount of \$191,816 at December 31, 2012). The loan is collateralized by earth station and ground common equipment.

1,648,882

Loan payable to National Information Solutions Cooperative (NISC), non-interest bearing, payable in monthly installment of \$10,482 from January 2013 through March 2013, and thereafter \$13,325 monthly, due October 2017 (net of unamortized discount of \$100,875). The loan is uncollateralized.

663,423

\$ 28,703,631

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,572,477	\$ 1,294,110	\$ 2,866,587
2014	1,656,139	1,218,975	2,875,114
2015	1,734,917	1,140,198	2,875,115
2016	1,817,445	1,057,670	2,875,115
2017	1,671,353	972,590	2,643,943
2018 - 2022	7,720,593	3,810,285	11,530,878
2023 - 2027	9,708,030	1,822,848	11,530,878
2028 - 2029	<u>2,822,677</u>	<u>87,988</u>	<u>2,910,665</u>
	<u>\$ 28,703,631</u>	<u>\$ 11,404,664</u>	<u>\$ 40,108,295</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (7) Long-Term Obligations, Continued

#### Discretely Presented Component Units, Continued

##### Public Utilities Corporation (PUC):

Loan payable to MICB in the amount of \$7,000,000, due December 11, 2026 with interest at 3.5% per annum, principal payable in semi-annual installments of \$200,000 plus interest. This loan was used to finance the purchase of portable generators, crankshaft assembly and other necessary equipment to facilitate the overhaul of aging generators and is guaranteed by the Republic.

\$ 5,800,000

Loan payable to the National Development Bank of Palau in the amount of \$3,000,000, due January 31, 2026 with interest at 7.5% per annum, principal payable in monthly installments of \$27,810 plus interest. This loan was used to finance the purchase of two generator sets. The loan is collateralized by the generator sets inclusive of auxiliary equipment and is guaranteed by the Republic.

2,806,048

\$ 8,606,048

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 527,601	\$ 404,087	\$ 931,688
2014	537,507	379,987	917,494
2015	548,182	355,118	903,300
2016	559,183	330,350	889,533
2017	572,043	302,867	874,910
2018 - 2022	3,082,141	1,079,767	4,161,908
2023 - 2027	<u>2,779,391</u>	<u>270,816</u>	<u>3,050,207</u>
	<u>\$ 8,606,048</u>	<u>\$ 3,122,992</u>	<u>\$ 11,729,040</u>

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2012, are as follows:

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2012</u>	<u>Due Within One Year</u>
Loans payable:					
NDBP	\$ 7,528,946	\$ -	\$ (761,248)	\$ 6,767,698	\$ 613,852
PNCC	29,515,002	1,179,561	(1,990,932)	28,703,631	1,572,477
PUC	9,125,051	-	(519,003)	8,606,048	527,601
Due to primary government	-	4,000,000	-	4,000,000	3,000,000
Due to fiduciary funds	<u>5,856,694</u>	<u>-</u>	<u>(293,357)</u>	<u>5,563,337</u>	<u>307,393</u>
	<u>\$ 52,025,693</u>	<u>\$ 5,179,561</u>	<u>\$ (3,564,540)</u>	<u>\$ 53,640,714</u>	<u>\$ 6,021,323</u>

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (8) Restricted Assets

##### Primary Government

Restricted cash and cash equivalents of the primary government are as follows:

Deposit accounts established for the purpose of accounting of funds held by the Republic in a custodial capacity relating to court-ordered settlements. \$ 305,232

Restricted investments of the primary government are as follows:

Investments held in a trust fund for the purpose of accumulating resources to fund future government operations. \$ 169,296,471

Investments held in a trust fund for the purpose of funding a liability to the United States government. 3,001,051  
\$ 172,297,522

##### Discretely Presented Component Units

Restricted cash and cash equivalents and time certificates of deposit of the discretely presented component units are as follows:

National Development Bank of Palau:

Time certificate of deposit collateralizing loan payable to a bank. \$ 452,281

Deposit account established in accordance with RPPL 4-48, Section 126, as amended by RPPL 5-37, for the purposes of a reserve account representing 10% of the total amount of all loan guarantees on commercial bank loans. 50,143

Deposit account collateralizing loans funded by Rural Housing Service. 523,645

Deposit account established for cash received from grantor agencies. 142,773

Palau Community College:

Deposit accounts established for library fund and endowment fund. 276,599

Public Utilities Corporation:

Deposit account established in accordance with MICB loan agreement. 124,844  
\$ 1,570,285

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (8) Restricted Assets, Continued

#### Discretely Presented Component Units, Continued

Restricted investments of the discretely presented component units are as follows:

Palau Community College:

Investments held for endowment purposes. \$ 2,490,000

Palau National Communications Corporation:

Investment account established in accordance with Rural Utilities Service loan agreement for the purposes of a reserve account. 3,661,576

\$ 6,151,576

### (9) Other Liabilities

Pursuant to a subsidiary agreement to the Compact of Free Association, entitled "Agreement Concerning Special Programs Related to the Entry into Force of the Compact of Free Association Between the Government of the United States and the Government of the Republic of Palau", Article 5, the Republic is to pay the United States Government, by September 30, 2005, a total of \$3,000,000. This amount represents the mutually agreed net economic cost of the United States providing all \$28,000,000 of Compact Section 211(b) funds in a lump sum at inception of the Compact, rather than payments of \$2,000,000 annually for fourteen years. During the fiscal year ended September 30, 2012, the Republic made no payments under this agreement. Please refer to Note 7 for matters involving potential release of this liability.

### (10) Transfers In/Out

#### Operating Fund Transfers

Operating transfers in/out for each major fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2012, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund:		
Grants Fund	\$ -	\$ 2,000,000
Compact Section 211(f) Fund	-	5,000,000
Other Governmental Funds	<u>-</u>	<u>456,903</u>
	<u>-</u>	<u>7,456,903</u>
Grants Fund:		
General Fund	<u>2,000,000</u>	<u>-</u>
Compact Section 211(f) Fund:		
General Fund	<u>5,000,000</u>	<u>-</u>



# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (10) Transfers In/Out, Continued

#### Operating Fund Transfers, Continued

##### Other Governmental Funds:

General Fund	456,903	-
	<u>\$ 7,456,903</u>	<u>\$ 7,456,903</u>

Operating transfers out were provided for under appropriation by the OEK. Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. During the year ended September 30, 2012, the Republic made a one-time transfer of \$456,903 from other governmental funds representing budgetary support for General Fund operations.

### (11) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General	Grants	Compact Section 211 (f)	Nonmajor Governmental Funds	Totals
Fund balances:					
Nonspendable:					
UMDA investment	\$ 1,185,575	\$ -	\$ -	\$ -	\$ 1,185,575
Loan receivable - NDBP	1,000,000	-	-	-	1,000,000
ServMart Inventory	46,468	-	-	-	46,468
Prepayments	24,318	377,454	-	20,413	422,185
Permanent fund principal	-	-	171,796,541	-	171,796,541
	<u>2,256,361</u>	<u>377,454</u>	<u>171,796,541</u>	<u>20,413</u>	<u>174,450,769</u>
Restricted:					
Water Sector Improvement	5,340,813	-	-	-	5,340,813
Compact Section 211(b) Energy	-	-	-	3,041,453	3,041,453
	<u>5,340,813</u>	<u>-</u>	<u>-</u>	<u>3,041,453</u>	<u>8,382,266</u>
Committed:					
Health	-	-	-	235,009	235,009
Community and cultural affairs	-	-	-	416	416
Capital projects	-	8,960	-	-	8,960
Court judgments	72,556	-	-	-	72,556
International Monetary Fund	386,720	-	-	-	386,720
	<u>459,276</u>	<u>8,960</u>	<u>-</u>	<u>235,425</u>	<u>703,661</u>
Unassigned	(7,657,217)	(353,742)	-	(35,609)	(8,046,568)
	<u>\$ 399,233</u>	<u>\$ 32,672</u>	<u>\$ 171,796,541</u>	<u>\$ 3,261,682</u>	<u>\$ 175,490,128</u>

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (12) Commitments and Contingencies

##### A. Sick Leave

It is the policy of the Republic to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during work hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave at September 30, 2012, amounted to \$7,522,027.

##### B. Promissory Notes

During 1998, the Republic executed four noninterest bearing, nonnegotiable promissory notes in the amounts of \$3,002,693, \$152,000, \$54,100 and \$21,714, respectively, to various international organizations in lieu of its membership fees. The notes are payable on demand. As of September 30, 2012, demand had not occurred. The notes are in the custody of a bank. The Republic has not recorded these notes as it believes the debt is essentially defeased by cash and deposits in the same amount with the organizations.

##### C. Federal Grants

Pursuant to the Compact of Free Association, substantially all federal grant activity provided by grantors other than the U.S. Department of the Interior is to phase out over the period of the Compact.

The Republic participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$2,754,298 have been set forth in the Republic's Single Audit Report for the year ended September 30, 2012. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

##### D. Insurance Coverage

The Republic does not maintain insurance coverage for a significant amount of fixed assets or inventory. In the event of a loss, the Republic may be self-insured to a material extent. The Republic has not expensed material losses from this practice over the past three years.

##### E. Unfunded Liability

An actuarial valuation of the Republic of Palau Social Security Retirement Fund has determined that the Fund has an actuarial deficiency of approximately \$103,899,191 as of October 1, 2011. Unless the existing deficiency is corrected, the Fund's cash flows may eventually become negative, which may cause the Fund to become depleted to the point that the Fund may not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2012 to correct this funding deficiency. No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (12) Commitments and Contingencies, Continued

##### F. Litigation

The Republic is party to standard litigation involving a government of its size. While litigation exists, management is of the opinion that resolution of such matters will not have a material impact on the accompanying financial statements.

##### G. Debt Commitments

Significant commitments of the primary government as of September 30, 2012, are as follows:

- a) Guaranteed bank debt of the National Development Bank of Palau (NDBP) with a letter of guarantee. At September 30, 2012, NDBP had guaranteed debt totaling \$6,767,698.
- b) Guaranteed a debt of NDBP in respect of a loan from the Republic of Palau Social Security Retirement Fund with a letter of guarantee. At September 30, 2012, NDBP had guaranteed debt associated with this loan totaling \$5,563,337.
- c) Guaranteed a debt of the Palau National Communications Corporation (PNCC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2012, PNCC had guaranteed debt totaling \$26,391,326.
- d) Guaranteed bank debt of the Public Utilities Corporation (PUC) with a letter of guarantee. At September 30, 2012, PUC had guaranteed debt totaling \$5,800,000.
- e) Guaranteed a debt of PUC in respect of a loan from NDBP with a letter of guarantee. At September 30, 2012, PUC had guaranteed debt associated with this loan totaling \$2,806,048.

##### H. Civil Service Pension Trust Fund

As of September 30, 2012, the Republic is delinquent in payment of contributions to the Republic of Palau Civil Service Pension Trust Fund (the Pension Fund) in the amount of \$3,147,716. Interest associated with these delinquent contributions has been accrued as of September 30, 2012 in the amount of \$1,408,874. The Pension Fund has filed suit against the Republic for lost earnings as a result of failure to timely remit contributions. Unfavorable resolution of this matter could expose the Republic to additional penalties and interest. At September 30, 2012, the financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management plans to negotiate a settlement agreement with the Pension Fund.

##### I. Other

In the normal course of business, the Republic periodically engages in disputes with its vendors. Management of the Republic is of the opinion that resolution of such disputes existing as of September 30, 2012, will not have a material impact on the accompanying financial statements.

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (13) Republic of Palau Civil Service Pension Trust Fund

The Republic contributes to the Palau Civil Service Pension Trust Fund (the Pension Fund), a defined benefit, cost-sharing multi-employer pension plan established and administered by the Republic.

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the Republic, Republic State Governments and Republic agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. A member, who retires at or after age 60, or with 25 years of vesting service, is entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Republic contributed \$1,554,455, \$1,765,740 and \$1,665,679 to the Pension Fund during the years ended September 30, 2012, 2011 and 2010, respectively. Per the provisions of RPPL No. 2-26 and RPPL No. 3-21, the Republic shall from time to time contribute additional sums to the Pension Fund in order to keep the Pension Fund on a sound actuarial basis. The Pension Fund issues a stand-alone financial report, which is available at its office site.

Under the provisions of the RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Republic's payroll for fiscal year 2012 was covered in total by the Pension Fund's pension plan.

The Pension Fund utilizes the actuarial cost method termed "aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 10% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the affects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Pension Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

RPPL No. 5-45 earmarked \$1,000,000 to the Pension Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this \$1,000,000, RPPL No. 6-12, passed into law on September 30, 2002, allocated \$500,000 to the Pension Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Pension Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Pension Fund their proportionate contribution for each year of retroactive participation. The Pension Fund did not receive funds related to RPPL No. 5-45 and RPPL No. 6-12 from the Republic during the year ended September 30, 2012.

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (13) Republic of Palau Civil Service Pension Trust Fund, Continued

The Republic has determined that remaining amounts earmarked to the Pension Fund through RPPL No. 5-45 and RPPL No. 6-12 will only be remitted as revenues are generated from the Virtual Pachinko Business.

As a result of the provisions of RPPL No. 6-12, PCC employees who opted to claim prior year's service executed payment agreements with the Pension Fund totaling \$978,907 for prior year's service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee's share through RPPL No. 6-12, the Pension Fund has elected not to record PCC employee receivables for prior year service. The Pension Fund received \$27,456 from PCC employees during the year ended September 30, 2012.

The funded status as of October 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a / c)
\$ 36,128,666	\$ 140,027,857	\$ 103,899,191	25.80%	\$ 37,035,338	280.54 %

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	October 1, 2011
Actuarial Cost Method:	Entry age normal cost method
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions
Actuarial Assumptions:	
Investment rate of return:	7.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

## REPUBLIC OF PALAU

### Notes to Financial Statements September 30, 2012

#### (14) Subsequent Event

On April 30, 2013, the Olbiil Era Kelulau enacted RPPL 9-2 that amended certain sections of the Palau Civil Service Pension Trust Fund (the Pension Fund) as follows:

- a. Elimination of mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.
- b. For members who retire after April 30, 2013, no member receiving monthly retirement benefits may receive greater than thirty thousand dollars (\$30,000) per year.
- c. For members who retire after April 30, 2013, the amount of benefits that a member receives shall not be recalculated if the member is re-employed after the member begins receiving benefits under the Pension Fund.
- d. For members who retire after April 30, 2013, a member shall not receive benefits during the time the member is re-employed subsequent to retirement.
- e. Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit.
- f. Each employee of the Government and all State Governments shall contribute to the Pension Fund through payroll deduction. The Government shall make regular contributions to the Pension Fund equal to the amount contributed by each and every employee.
- g. An excise tax of four percent (4%) shall be levied against each non-citizen person who transfers money out of the Republic of Palau. The money transfer tax shall be remitted to the Pension Fund.

#### (15) Restatement

Subsequent to the issuance of the Republic's 2011 basic financial statements, it was determined that due to component units of the governmental activities/governmental funds was understated by \$2,444,061, that accrued payroll and other liabilities of the governmental activities/governmental funds was understated by \$1,077,903, and that certain infrastructure capital assets and related accumulated depreciation of the governmental activities was overstated by \$8,236,800. As a result of this determination, these account balances have been restated from the amounts previously reported as follows:

	As Previously Reported	As Restated
Governmental activities:		
At September 30:		
Noncurrent assets:		
Capital assets, net of accumulated depreciation	\$ <u>229,716,521</u>	\$ <u>221,479,721</u>
Current liabilities:		
Due to component units	\$ <u>5,120,909</u>	\$ <u>7,564,970</u>
Accrued payroll related liabilities	\$ <u>1,579,078</u>	\$ <u>2,656,981</u>
Net assets:		
Invested in capital assets, net of related debt	\$ <u>228,326,824</u>	\$ <u>220,090,024</u>
Unrestricted	\$ <u>(16,521,840)</u>	\$ <u>(20,043,804)</u>

# REPUBLIC OF PALAU

## Notes to Financial Statements September 30, 2012

### (15) Restatement, Continued

	<u>As Previously Reported</u>	<u>As Restated</u>
Governmental activities, continued:		
Year Ended September 30:		
Program expenses:		
Ministry of Finance	\$ <u>2,202,714</u>	\$ <u>3,280,617</u>
Ministry of Public Infrastructure, Industry and Commerce	\$ <u>40,039,410</u>	\$ <u>48,276,210</u>
Independent Agencies	\$ <u>2,675,053</u>	\$ <u>5,119,114</u>
Change in Net Assets	\$ <u>(14,007,576)</u>	\$ <u>(25,766,340)</u>
Ending net assets	\$ <u>364,366,490</u>	\$ <u>352,607,726</u>
Governmental funds:		
General Fund:		
At September 30:		
Liabilities:		
Due to component units	\$ <u>5,120,909</u>	\$ <u>7,564,970</u>
Accrued payroll related liabilities	\$ <u>1,498,333</u>	\$ <u>2,576,236</u>
Fund balances:		
Unassigned	\$ <u>(10,725,021)</u>	\$ <u>(14,246,985)</u>
Year Ended September 30:		
Expenditures:		
Protected Area Network	\$ <u>-</u>	\$ <u>2,444,061</u>
Pension plan interest	\$ <u>-</u>	\$ <u>1,077,903</u>
Net change in fund balances	\$ <u>2,877,239</u>	\$ <u>(644,725)</u>
Ending fund balance	\$ <u>(8,980,545)</u>	\$ <u>(12,502,509)</u>

In addition, it was determined that the financial activities of the aggregate discretely presented component units were misstated due to the omission of the Protected Areas Network Fund from the Republic's 2011 basic financial statements. As a result of this determination, these account balances have subsequently been included resulting in a restatement of beginning net assets of \$2,444,061.

Finally, it was determined that GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was not fully adopted. As a result of this determination, fund balances within the Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds have been restated due to reclassification of funds. Beginning fund balance for the Other Governmental Funds decreased by \$2,182,936 while the General Fund increased by \$2,182,936.

**REPUBLIC OF PALAU**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**- BUDGETARY REPORTING**

**YEAR ENDED SEPTEMBER 30, 2012**



# REPUBLIC OF PALAU

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund (Fund 100100) Year Ended September 30, 2012

	Original Budget	Final Budget	Actual - Budgetary Basis (see note 1)	Variance
<b>Revenues:</b>				
Local revenue	\$ 37,994,000	\$ 44,033,300	\$ 42,250,361	\$ (1,782,939)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,750,000	5,147,000	5,128,231	(18,769)
Net change in the fair value of investments	-	-	39,285	39,285
UMDA dividend	250,000	250,000	250,000	-
<b>Total revenues</b>	<b>48,994,000</b>	<b>55,430,300</b>	<b>53,667,877</b>	<b>(1,762,423)</b>
<b>Expenditures - budgetary basis:</b>				
Office of the President	882,830	1,109,539	1,105,301	4,238
Office of the Vice-President	304,169	447,190	454,480	(7,290)
Ministry of Finance	2,071,775	2,842,786	2,819,933	22,853
Ministry of State	2,056,821	2,269,926	2,263,880	6,046
Ministry of Community and Cultural Affairs	877,479	1,021,179	1,015,889	5,290
Ministry of Education	6,617,952	6,931,187	6,879,258	51,929
Ministry of Public Infrastructure, Industry and Commerce	7,220,074	9,579,365	9,426,802	152,563
Ministry of Justice	3,634,728	3,892,728	3,866,604	26,124
Ministry of Health	7,068,816	8,209,744	7,990,985	218,759
Ministry of Natural Resources, Environment and Tourism	1,079,015	1,242,915	1,219,755	23,160
Boards, Commissions and Authorities	636,606	716,706	616,304	100,402
Judicial Branch	2,175,000	2,200,000	2,199,311	689
Legislative Branch	3,812,310	3,942,110	3,917,604	24,506
State Block Grants	4,822,000	4,872,000	4,735,883	136,117
Independent Agencies	3,063,918	3,023,818	2,988,116	35,702
Other Agencies and Activities	1,823,290	2,218,290	2,067,922	150,368
Education Assistance	3,331,200	3,331,200	3,331,200	-
Other Appropriations	654,588	718,188	541,900	176,288
<b>Total expenditures</b>	<b>52,132,571</b>	<b>58,568,871</b>	<b>57,441,127</b>	<b>1,127,744</b>
<b>Deficiency of revenues under expenditures</b>	<b>(3,138,571)</b>	<b>(3,138,571)</b>	<b>(3,773,250)</b>	<b>(634,679)</b>
<b>Other financing sources (uses):</b>				
Loan proceeds	-	-	3,472,734	3,472,734
Operating transfers in	7,000,000	7,000,000	7,456,903	456,903
Operating transfers out	(3,983,000)	(3,983,000)	(3,425,420)	557,580
<b>Total other financing sources (uses), net</b>	<b>3,017,000</b>	<b>3,017,000</b>	<b>7,504,217</b>	<b>4,487,217</b>
	<b>(121,571)</b>	<b>(121,571)</b>	<b>3,730,967</b>	<b>3,852,538</b>
<b>Other changes:</b>				
Write-off of Pacific Savings Bank account	-	-	(49,888)	(49,888)
Pension plan interest	-	-	(330,971)	(330,971)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	121,571	121,571	559,541	437,970
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,909,649</b>	<b>\$ 3,909,649</b>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

## REPUBLIC OF PALAU

### Notes to Required Supplementary Information - Budgetary Reporting September 30, 2012

#### (1) Budgetary Information

Budgets are adopted on a basis consistent with GAAP. The OEK enacts budgets for the General Fund. Before signing the Appropriations Act, the President of the Republic may veto or reduce any specific appropriation, subject to legislative override. If the veto or reduction is overridden, the President is constitutionally empowered to "impound" the subject funds. Impounding provides for recognition of the appropriation, but allows the President to withhold allotment of the funds for as long as deemed appropriate. Once passed and signed, the budget becomes the National Government's financial plan for the ensuing fiscal year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes, may be effected through OEK approval.

The Republic receives annual appropriations from the United States Congress to partially fund its operations. The OEK approves the allotment of these appropriations with budgetary control set at the departmental level. Supplemental appropriations are made during the fiscal year. Unless specifically required by the OEK, appropriations generally lapse as of the end of each fiscal year. Continuing appropriations are usually made only for allotments to the State governments, scholarship funding, and certain specific projects.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

#### (2) Reconciliation - GAAP and Budgetary Bases of Accounting

	Net Change in <u>Fund Balance</u>	<u>Encumbrances</u>
General Fund (Fund 100100):		
Budgetary basis	\$ <u>3,909,649</u>	\$ <u>559,541</u>
GASB 54 Funds included within the General Fund:		
Financial Institutions Commission Fund (Fund 100116)	(14,874)	232
Scholarship Fund (Fund 100150)	66,638	-
Non-Lapsing Fund (Fund 100200)	(17,118)	342,746
Receivable Fund (Fund 100900)	(1)	5,620
Compact Section 211(e) Fund (Fund 311500)	97	-
Compact Section 213 Fund (Fund 313000)	545,889	-
Local CIP Fund (Fund 410100)	(29,321)	16,282
Compact Section 212 (b) Fund (Fund 500100)	1,341	-
ADB Proceeds Fund (Fund 700100)	6,340,813	-
Judiciary Fund	(84,307)	-
	<u>6,809,157</u>	<u>364,880</u>
	\$ <u>10,718,806</u>	\$ <u>924,421</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2012**

# **REPUBLIC OF PALAU**

## **GENERAL FUND**

September 30, 2012

The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

Financial Institutions Commission Fund - This fund accounts for financial transactions related to the financial regulatory and supervisory system of financial institutions operating in the Republic.

Scholarship Fund - This fund accounts for expenditures and all financial transactions related to scholarship awards and student loans.

Compact Section 211(c) Communications Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(c).

Compact Section 211(d) Maritime, Health and Scholarship Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(d).

Compact Section 211(e) Maritime Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(e).

Compact Section 213 Defense Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 213.

Compact Section 221(b) Special Block Grants Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association Section 221(b).

Local Capital Projects Fund - To account for the expenditures and transfers of construction projects funded wholly by locally generated revenues or revenues derived from Compact of Free Association Section 211(a) funds or Section 215 inflation funds.

DOI Capital Projects Fund - To account for construction grants received from the Trust Territory of the Pacific Islands Government, prior to implementation of the Compact of Free Association.

Compact Section 212(b) Capital Account Fund - To account for construction activities funded by Compact Section 212(b) capital account funding and Compact Section 215 inflation funds.

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Balance Sheet Accounts September 30, 2012

	100150		311300		311400		311500		313000		321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)					
<b>ASSETS</b>												
Cash and cash equivalents	\$ 10,783,582	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	1,193,147	-	-	-	-	448,197	2,461,198	-	-	-	-	-
Receivables, net:												
Taxes	4,239,802	-	-	-	-	-	-	-	-	-	-	-
General	711,714	-	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	5,340	-	-	-	-	-
Due from component units	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	135,917,419	-	102,889	48,136	-	-	-	-	-	-	-	-
Advances	121,181	-	-	-	-	-	-	-	-	-	-	-
Inventory	46,468	-	-	-	-	-	-	-	-	-	-	-
Prepaid items	24,318	-	-	-	-	-	-	-	-	-	-	-
Restricted assets:												
Cash and cash equivalents	305,232	-	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 153,342,863</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 448,197</u>	<u>\$ 2,466,538</u>	<u>\$ -</u>					
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>												
Liabilities:												
Note payable	\$ 198,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	5,125,058	9,851	-	-	-	-	-	-	-	-	-	-
Due to State governments	2,545,271	-	-	-	-	-	-	-	-	-	-	-
Due to component units	8,632,381	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	140,215,634	775,146	-	-	-	-	-	-	-	-	-	-
Accrued payroll and others	3,135,523	1,082	-	-	-	-	-	-	-	-	-	-
Other liabilities and accruals	1,390,849	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-
Income tax refunds	809,165	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>162,052,023</u>	<u>786,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit):												
Nonspendable	1,256,361	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-	-	-
Committed	459,276	-	-	-	-	-	-	-	-	-	-	-
Unassigned	(10,424,797)	(786,079)	102,889	48,136	448,197	2,466,538	-	-	-	-	-	-
Total fund balances (deficit)	<u>(8,709,160)</u>	<u>(786,079)</u>	<u>102,889</u>	<u>48,136</u>	<u>448,197</u>	<u>2,466,538</u>	<u>-</u>					
Total liabilities and fund balances (deficit)	<u>\$ 153,342,863</u>	<u>\$ -</u>	<u>\$ 102,889</u>	<u>\$ 48,136</u>	<u>\$ 448,197</u>	<u>\$ 2,466,538</u>	<u>\$ -</u>					

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Balance Sheet Accounts, Continued September 30, 2012

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,783,582
Investments	-	-	44,320	-	-	-	4,146,862
Receivables, net:							
Taxes	-	-	-	-	-	-	4,239,802
General	-	-	-	-	-	-	711,714
Accrued interest	10,200	-	-	-	-	-	15,540
Due from component units	-	-	-	-	4,000,000	-	4,000,000
Due from other funds	289,152	261,567	72,303	-	2,381,520	(137,207,325)	1,865,661
Advances	-	2,026	-	-	-	-	123,207
Inventory	-	-	-	-	-	-	46,468
Prepaid items	-	-	-	-	-	-	24,318
Restricted assets:							
Cash and cash equivalents	-	-	-	-	-	-	305,232
Total assets	<u>\$ 299,352</u>	<u>\$ 263,593</u>	<u>\$ 116,623</u>	<u>\$ -</u>	<u>\$ 6,381,520</u>	<u>\$ (137,207,325)</u>	<u>\$ 26,262,386</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>							
Liabilities:							
Note payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,142
Accounts payable	11,215	-	-	-	40,707	-	5,186,831
Due to State governments	-	-	-	-	-	-	2,545,271
Due to component units	-	-	-	-	-	-	8,632,381
Due to other funds	-	-	-	-	-	(137,207,325)	3,783,455
Accrued payroll and others	-	-	-	-	-	-	3,136,605
Other liabilities and accruals	-	-	-	-	-	-	1,390,849
Deferred revenue	-	180,454	-	-	-	-	180,454
Income tax refunds	-	-	-	-	-	-	809,165
Total liabilities	<u>11,215</u>	<u>180,454</u>	<u>-</u>	<u>-</u>	<u>40,707</u>	<u>(137,207,325)</u>	<u>25,863,153</u>
Fund balances (deficit):							
Nonspendable	-	-	-	-	1,000,000	-	2,256,361
Restricted	-	-	-	-	5,340,813	-	5,340,813
Committed	-	-	-	-	-	-	459,276
Unassigned	288,137	83,139	116,623	-	-	-	(7,657,217)
Total fund balances (deficit)	<u>288,137</u>	<u>83,139</u>	<u>116,623</u>	<u>-</u>	<u>6,340,813</u>	<u>-</u>	<u>399,233</u>
Total liabilities and fund balances (deficit)	<u>\$ 299,352</u>	<u>\$ 263,593</u>	<u>\$ 116,623</u>	<u>\$ -</u>	<u>\$ 6,381,520</u>	<u>\$ (137,207,325)</u>	<u>\$ 26,262,386</u>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Revenues, Expenditures By Function, and Changes in Fund Balance (Deficit) Accounts Year Ended September 30, 2012

	100150	311300	311400	311500	313000	321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)
Revenues:							
Taxes	\$ 35,797,619	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compact funding	11,128,231	-	-	-	-	-	-
Net change in the fair value of investments	289,285	-	-	-	310	558,232	-
Fees and charges	6,333,541	-	-	-	-	-	-
Licenses and permits	2,193,544	-	-	-	-	-	-
Other	495,442	66,638	-	-	-	-	-
Total revenues	56,237,662	66,638	-	-	310	558,232	-
Expenditures:							
Current:							
Judicial Branch	2,283,618	-	-	-	-	-	-
Legislative Branch	3,897,278	-	-	-	-	-	-
Office of the President	1,097,569	-	-	-	-	-	-
Office of the Vice-President	450,710	-	-	-	-	-	-
Ministry of Finance	2,856,316	-	-	-	-	-	-
Ministry of State	2,263,037	-	-	-	-	-	-
Ministry of Community and Cultural Affairs	1,009,613	-	-	-	-	-	-
Ministry of Education	6,847,558	-	-	-	-	-	-
Ministry of Public Infrastructure, Industry and Commerce	9,389,976	-	-	-	-	-	-
Ministry of Justice	4,031,242	-	-	-	-	-	-
Ministry of Health	7,901,061	-	-	-	-	-	-
Ministry of Natural Resources, Environment and Tourism	1,218,662	-	-	-	-	-	-
Boards, Commissions, and Authorities	2,581,703	-	-	-	-	-	-
State Block Grants	4,735,883	-	-	-	-	-	-
Independent Agencies	2,962,086	-	-	-	-	-	-
Other Agencies and Activities	2,454,317	-	-	-	213	12,343	-
Education assistance	3,331,200	1,246,273	-	-	-	-	-
Pension plan interest	330,971	-	-	-	-	-	-
Financial and Compliance Audit	97,500	-	-	-	-	-	-
Compact Review Office	148,722	-	-	-	-	-	-
Festival of Arts	59,508	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	59,948,530	1,246,273	-	-	213	12,343	-
Excess (deficiency) of revenues over (under) expenditures	(3,710,868)	(1,179,635)	-	-	97	545,889	-
Other financing sources (uses):							
Loan proceeds	3,472,734	-	-	-	-	-	-
Operating transfers in	7,456,903	1,246,273	-	-	-	-	-
Operating transfers out	(3,425,420)	-	-	-	-	-	-
Total other financing sources (uses), net	7,504,217	1,246,273	-	-	-	-	-
Net change in fund balances (deficit)	3,793,349	66,638	-	-	97	545,889	-
Fund balances (deficit) at beginning of year, as previously reported	(8,980,545)	(852,717)	102,889	48,136	448,100	1,920,649	-
Prior-period adjustment	(3,521,964)	-	-	-	-	-	-
Fund balances (deficit) at beginning of year, as restated	(12,502,509)	(852,717)	102,889	48,136	448,100	1,920,649	-
Fund balances (deficit) at end of year	\$ (8,709,160)	\$ (786,079)	\$ 102,889	\$ 48,136	\$ 448,197	\$ 2,466,538	\$ -

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Revenues, Expenditures By Function, and Changes in Fund Balance (Deficit) Accounts, Continued Year Ended September 30, 2012

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
Revenues:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,797,619
Compact funding	-	-	-	-	-	-	11,128,231
Net change in the fair value of investments	-	-	1,361	-	-	-	849,188
Fees and charges	265,142	-	-	-	-	-	6,598,683
Licenses and permits	-	-	-	-	-	-	2,193,544
Other	-	-	-	-	-	-	562,080
Total revenues	265,142	-	1,361	-	-	-	57,129,345
Expenditures:							
Current:							
Judicial Branch	-	-	-	-	-	-	2,283,618
Legislative Branch	-	-	-	-	-	-	3,897,278
Office of the President	-	-	-	-	-	-	1,097,569
Office of the Vice-President	-	-	-	-	-	-	450,710
Ministry of Finance	-	-	-	-	-	-	2,856,316
Ministry of State	-	-	-	-	-	-	2,263,037
Ministry of Community and Cultural Affairs	-	-	-	-	-	-	1,009,613
Ministry of Education	-	-	-	-	-	-	6,847,558
Ministry of Public Infrastructure, Industry and Commerce	-	-	-	-	-	-	9,389,976
Ministry of Justice	-	-	-	-	-	-	4,031,242
Ministry of Health	-	-	-	-	-	-	7,901,061
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	1,218,662
Boards, Commissions, and Authorities	-	-	-	-	-	-	2,581,703
State Block Grants	-	-	-	-	-	-	4,735,883
Independent Agencies	-	-	-	-	59,187	-	3,021,273
Other Agencies and Activities	-	-	20	-	-	-	2,466,893
Education assistance	-	-	-	-	-	-	4,577,473
Pension plan interest	-	-	-	-	-	-	330,971
Financial and Compliance Audit	-	-	-	-	-	-	97,500
Compact Review Office	-	-	-	-	-	-	148,722
Festival of Arts	-	-	-	-	-	-	59,508
Capital projects	294,463	-	-	-	-	-	294,463
Debt service:							
Principal retirement	-	-	-	1,599,998	-	-	1,599,998
Interest	-	-	-	579,149	-	-	579,149
Total expenditures	294,463	-	20	2,179,147	59,187	-	63,740,176
Excess (deficiency) of revenues over (under) expenditures	(29,321)	-	1,341	(2,179,147)	(59,187)	-	(6,610,831)
Other financing sources (uses):							
Loan proceeds	-	-	-	-	6,400,000	-	9,872,734
Operating transfers in	-	-	-	2,179,147	-	(3,425,420)	7,456,903
Operating transfers out	-	-	-	-	-	3,425,420	-
Total other financing sources (uses), net	-	-	-	2,179,147	6,400,000	-	17,329,637
Net change in fund balances (deficit)	(29,321)	-	1,341	-	6,340,813	-	10,718,806
Fund balances (deficit) at beginning of year, as previously reported	317,458	83,139	115,282	-	-	-	(6,797,609)
Prior-period adjustment	-	-	-	-	-	-	(3,521,964)
Fund balances (deficit) at beginning of year, as restated	317,458	83,139	115,282	-	-	-	(10,319,573)
Fund balances (deficit) at end of year	\$ 288,137	\$ 83,139	\$ 116,623	\$ -	\$ 6,340,813	\$ -	\$ 399,233

See Accompanying Independent Auditors' Report.



# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Expenditures By Object Year Ended September 30, 2012

	100150		311300		311400		311500		313000		321000	
	General	Scholarship	Compact Section 211 (c)	Compact Section 211 (d)	Compact Section 211 (e)	Compact Section 213	Compact Section 221 (b)					
Expenditures:												
Salaries and wages	\$ 31,261,285	\$ 56,397	\$ -	\$ -	\$ -	\$ -	\$ -					
Freight	14,090	-	-	-	-	-	-					
Rentals	561,396	20	-	-	-	-	-					
Communications and postage	730,243	1,055	-	-	-	-	-					
Advertising	42,234	-	-	-	-	-	-					
Medical referrals	321,934	-	-	-	-	-	-					
Professional and contractual services	440,499	-	-	-	-	-	-					
Supplies and materials	1,261,412	4,255	-	-	-	-	-					
Petroleum products	943,103	700	-	-	-	-	-					
Food stuffs	666,874	242	-	-	-	-	-					
Books and library materials	149,587	-	-	-	-	-	-					
Medical supplies	1,022,479	-	-	-	-	-	-					
Travel	768,644	-	-	-	-	-	-					
Equipment	182,617	1,909	-	-	-	-	-					
Insurance	13,385	518	-	-	-	-	-					
Training	15,633	-	-	-	-	-	-					
Donations	287,372	-	-	-	-	-	-					
Payments of allotments/benefits	8,517,415	-	-	-	-	-	-					
Representation and entertainment	10,108	-	-	-	-	-	-					
Investment management fees	-	-	-	-	-	213	12,343					
Dues, fees and registration	260,961	-	-	-	-	-	-					
Board compensation	84,277	5,775	-	-	-	-	-					
Allowances	208,045	-	-	-	-	-	-					
Repairs and maintenance	360,055	450	-	-	-	-	-					
Construction	63,635	-	-	-	-	-	-					
Machinery	48,000	-	-	-	-	-	-					
Vehicles	110,442	-	-	-	-	-	-					
Furniture and fixtures	650	-	-	-	-	-	-					
Boats	100	-	-	-	-	-	-					
Computer software	17,049	-	-	-	-	-	-					
Improvements	-	-	-	-	-	-	-					
Utilities	5,923,441	-	-	-	-	-	-					
Principal retirement	-	-	-	-	-	-	-					
Interest charges	-	-	-	-	-	-	-					
Bad debts	49,888	-	-	-	-	-	-					
Student loans	-	559,675	-	-	-	-	-					
Scholarships	-	615,277	-	-	-	-	-					
Bank service fee	1,170	-	-	-	-	-	-					
Grants and contributions	4,985,888	-	-	-	-	-	-					
Miscellaneous	624,619	-	-	-	-	-	-					
Total expenditures	<u>\$ 59,948,530</u>	<u>\$ 1,246,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 213</u>	<u>\$ 12,343</u>	<u>\$ -</u>					

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Combining Schedule of Expenditures By Object, Continued Year Ended September 30, 2012

	410100	430100	500100	600000	700100		
	Local CIP	DOI CIP	Compact Section 212 (b)	Debt Service	ADB Loan Proceeds	Elimination	Total
Expenditures:							
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ 7,555	\$ -	\$ 31,325,237
Freight	-	-	-	-	-	-	14,090
Rentals	-	-	-	-	-	-	561,416
Communications and postage	-	-	-	-	2,485	-	733,783
Advertising	-	-	-	-	14,034	-	56,268
Medical referrals	-	-	-	-	-	-	321,934
Professional and contractual services	-	-	-	-	4,983	-	445,482
Supplies and materials	8,955	-	-	-	19,489	-	1,294,111
Petroleum products	4,143	-	-	-	-	-	947,946
Food stuffs	4,788	-	-	-	-	-	671,904
Books and library materials	-	-	-	-	-	-	149,587
Medical supplies	-	-	-	-	-	-	1,022,479
Travel	1,520	-	-	-	-	-	770,164
Equipment	9,915	-	-	-	8,849	-	203,290
Insurance	-	-	-	-	-	-	13,903
Training	-	-	-	-	-	-	15,633
Donations	-	-	-	-	375	-	287,747
Payments of allotments/benefits	-	-	-	-	-	-	8,517,415
Representation and entertainment	-	-	-	-	-	-	10,108
Investment management fees	-	-	20	-	-	-	12,576
Dues, fees and registration	-	-	-	-	-	-	260,961
Board compensation	-	-	-	-	1,342	-	91,394
Allowances	-	-	-	-	75	-	208,120
Repairs and maintenance	-	-	-	-	-	-	360,505
Construction	29,285	-	-	-	-	-	92,920
Machinery	8,400	-	-	-	-	-	56,400
Vehicles	-	-	-	-	-	-	110,442
Furniture and fixtures	-	-	-	-	-	-	650
Boats	-	-	-	-	-	-	100
Computer software	-	-	-	-	-	-	17,049
Improvements	227,457	-	-	-	-	-	227,457
Utilities	-	-	-	-	-	-	5,923,441
Principal retirement	-	-	-	1,599,998	-	-	1,599,998
Interest charges	-	-	-	579,149	-	-	579,149
Bad debts	-	-	-	-	-	-	49,888
Student loans	-	-	-	-	-	-	559,675
Scholarships	-	-	-	-	-	-	615,277
Bank service fee	-	-	-	-	-	-	1,170
Grants and contributions	-	-	-	-	-	-	4,985,888
Miscellaneous	-	-	-	-	-	-	624,619
Total expenditures	\$ 294,463	\$ -	\$ 20	\$ 2,179,147	\$ 59,187	\$ -	\$ 63,740,176

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GENERAL FUND

### Schedule of Revenues Year Ended September 30, 2012 (With comparative totals for the year ended September 30, 2011)

	2012	2011
Compact funding:		
Section 211(a)	\$ 6,000,000	\$ 6,000,000
Section 215 inflation adjustment	5,128,231	4,267,000
Total compact funding	<u>11,128,231</u>	<u>10,267,000</u>
Taxes:		
Gross receipts	12,066,499	10,731,062
Salary and wage	7,143,717	7,129,747
Alcohol and tobacco	5,663,182	4,814,375
Hotel occupancy	3,307,835	2,776,511
Travelers head	2,546,128	2,225,097
General import	2,107,327	1,268,950
Fuel Excise	697,133	704,271
Penalties, interest and delinquencies	688,992	765,550
Fish export	623,525	581,394
Road Use	456,659	419,204
Beverage container tax	363,030	-
Vessel cabin and foreign water vessel	133,592	134,966
Other	-	818,031
Total taxes	<u>35,797,619</u>	<u>32,369,158</u>
Licenses and permits:		
Foreign labor permits	1,003,150	916,483
Fishing rights fees	361,143	777,394
Business licenses	225,982	203,656
Foreign investment permits and fees	208,427	204,724
Court fines and fees	162,182	591,342
Corporate filing fees	27,872	29,143
Other licenses and permits	204,788	785,544
Total licenses and fees	<u>2,193,544</u>	<u>3,508,286</u>
Fees and charges:		
Airport fees and rentals	1,924,676	1,481,452
Green fees	1,847,920	1,604,085
Water utility charges	1,189,721	936,109
Sewer utility charges	511,046	-
Postal service	392,330	350,991
Banking fees	122,651	105,000
Palau passport fees	82,370	83,129
Seaport fees	31,250	31,650
Belau Mariculture Demonstration Center sales	3,271	-
Property sales rental	-	464,575
Other	493,448	170,983
Total fees and charges	<u>6,598,683</u>	<u>5,227,974</u>
Net change in the fair value of investments	<u>849,188</u>	<u>(8,644)</u>
Other:		
Indirect cost recoveries	107,227	-
Other	454,853	231,377
Total other	<u>562,080</u>	<u>231,377</u>
Total revenues	<u>\$ 57,129,345</u>	<u>\$ 51,595,151</u>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts			
	Original	Final	Actual	Variance
Revenues:				
Local revenue	\$ 37,994,000	\$ 44,033,300	\$ 42,250,361	(1,782,939)
Compact funding - Section 211(a)	6,000,000	6,000,000	6,000,000	-
Compact funding - Section 215 inflation adjustment	4,750,000	5,147,000	5,128,231	(18,769)
Net change in the fair value of investments	-	-	39,285	39,285
UMDA dividend	250,000	250,000	250,000	-
Total revenues	48,994,000	55,430,300	53,667,877	(1,762,423)
Expenditures - budgetary basis:				
Office of the President:				
President's Office	680,051	898,160	895,013	3,147
Official Expenses	31,339	31,339	31,329	10
Grants Coordinator Office	70,050	77,050	76,109	941
Council of Chiefs	101,390	102,990	102,850	140
Total Office of the President	882,830	1,109,539	1,105,301	4,238
Office of the Vice-President:				
Vice-President's Office	223,979	327,000	334,406	(7,406)
National Emergency Management Office	80,190	120,190	120,074	116
Total Office of the Vice-President	304,169	447,190	454,480	(7,290)
Ministry of Finance:				
Indirect Costs	-	107,227	87,013	20,214
Administrative Overhead	-	27,784	27,007	777
Workmen's Compensation	36,868	36,868	36,745	123
Information System Support Service	156,693	190,793	190,643	150
Bureau of National Treasury	581,608	756,608	756,459	149
Bureau of Budget and Planning	179,475	241,375	241,122	253
Bureau of Public Service System	89,407	129,407	129,160	247
Bureau of Revenue, Customs and Taxation	1,027,724	1,352,724	1,351,784	940
Total Ministry of Finance	2,071,775	2,842,786	2,819,933	22,853
Ministry of State:				
Office of the Minister	58,000	58,000	57,821	179
Consulate Office in Guam	71,895	90,000	89,907	93
Embassy in Washington D.C.	278,361	278,361	277,888	473
Embassy in Japan	342,882	377,882	377,656	226
Embassy in Taiwan	79,268	79,268	78,637	631
Embassy in Manila, Philippines	120,745	120,745	119,686	1,059
International Organizations Obligations	230,431	230,431	230,431	-
Office of the Public Defender	125,355	125,355	125,208	147
Bureau of Foreign Affairs	198,171	198,171	197,658	513
European Union Representation	23,043	23,043	22,785	258
Bureau of Domestic Affairs	247,944	267,944	267,458	486
Office of the Administration, Passport and Protocol	32,909	152,909	152,805	104
Bureau of International Trade and Technical Assistance	49,718	69,718	69,031	687
United Nations Representative Office	198,099	198,099	196,909	1,190
Total Ministry of State	2,056,821	2,269,926	2,263,880	6,046
Ministry of Community and Cultural Affairs:				
Office of the Minister	59,200	67,900	67,553	347
Sports Facilities Maintenance and Utilities	76,503	87,903	87,836	67
Bureau of National Archives	68,208	68,208	67,503	705
Palau Severely Disabled Assistance Fund	186,188	227,188	225,215	1,973
Administrative Expenses (Earmarked)	470	470	65	405
Bureau of Youth, Sports and Recreation	124,433	166,033	165,645	388
Bureau of Arts and Culture	138,259	138,259	138,211	48
Olechotel Belau Fair	23,043	23,043	23,043	-
Bureau of Aging and Gender	201,175	242,175	240,818	1,357
Total Ministry of Community and Cultural Affairs	877,479	1,021,179	1,015,889	5,290

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts			
	Original	Final	Actual	Variance
Ministry of Education:				
Office of the Minister	58,000	58,000	56,451	1,549
School Books, Supplies and Instructional Equipment	291,000	227,000	217,182	9,818
Food Services Program	620,000	700,000	698,091	1,909
Bureau of School Administration	5,276,952	5,562,952	5,525,058	37,894
Bureau of Curriculum	372,000	383,235	382,476	759
Total Ministry of Education	6,617,952	6,931,187	6,879,258	51,929
Ministry of Public Infrastructure, Industry and Commerce:				
Office of the Minister	58,000	58,000	57,894	106
Palau Small Business Development Center (UOG)	30,000	30,000	30,000	-
Pacific Business Center Program (UH)	18,435	18,435	-	18,435
PALARIS	111,529	118,500	114,673	3,827
Bureau of Aviation	943,764	1,523,884	1,487,323	36,561
Bureau of Commercial Development	193,157	193,157	192,592	565
Rural Sanitation Project	122,674	110,474	106,923	3,551
Capital Improvement Office	28,573	28,573	25,813	2,760
OMIP, UNDP and Other Match	460,862	414,862	364,243	50,619
National Capitol Electricity	696,000	1,266,000	1,265,718	282
Landfill Operations	38,712	38,712	38,698	14
Melekeok/Capitol Sewer System	76,503	221,903	207,893	14,010
Bureau of Public Works	1,254,885	1,254,885	1,254,373	512
Water and Sewer Operations	2,487,391	3,527,391	3,515,080	12,311
Bureau of Lands and Survey	699,589	774,589	765,579	9,010
Total Ministry of Public Infrastructure, Industry and Commerce	7,220,074	9,579,365	9,426,802	152,563
Ministry of Justice:				
Office of the Minister	58,968	58,968	58,311	657
Office of the Attorney General	454,297	414,297	397,804	16,493
Bureau of Immigration	245,500	285,500	283,195	2,305
Bureau of Public Safety	2,273,516	2,481,516	2,476,729	4,787
Division of Marine Law Enforcement	602,447	652,447	650,565	1,882
Total Ministry of Justice	3,634,728	3,892,728	3,866,604	26,124
Ministry of Health:				
Office of the Minister	58,000	58,000	57,820	180
National Cancer Control Prevention Administrative Cost	-	72,489	113,076	(40,587)
Health Administration	1,887,918	2,505,918	2,494,152	11,766
Manila Medical Referral Office	80,000	96,660	96,515	145
Hawaii Medical Referral Office	105,000	105,000	104,994	6
Medical Supplies and Drugs	604,564	604,564	602,869	1,695
Medical Referrals	300,232	540,232	296,106	244,126
Bureau of Public Health	1,109,000	1,046,000	1,045,602	398
Bureau of Clinical Service	2,404,000	2,665,679	2,664,661	1,018
Hemodialysis	520,102	515,202	515,190	12
Total Ministry of Health	7,068,816	8,209,744	7,990,985	218,759
Ministry of Natural Resources, Environment, and Tourism:				
Office of the Minister	58,000	58,000	57,879	121
Bureau of Agriculture	343,102	411,202	405,993	5,209
Bureau of Marine Resources	451,644	517,444	513,384	4,060
Bureau of Labor and Human Resources	226,269	256,269	242,499	13,770
Total Ministry of Natural Resources, Environment, and Tourism	1,079,015	1,242,915	1,219,755	23,160
Total Executive Branch	31,813,659	37,546,559	37,042,887	503,672

See Accompanying Independent Auditors' Report.

# **REPUBLIC OF PALAU**

## Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts			
	Original	Final	Actual	Variance
Boards, Commissions and Authorities:				
Foreign Investment Board	70,000	63,000	52,710	10,290
Palau Election Commission	155,236	259,236	205,973	53,263
Palau Public Lands Authority	125,418	112,918	96,989	15,929
Parole Board	20,000	21,800	20,665	1,135
Palau Housing Authority	58,990	58,990	58,990	-
Financial Intelligence Unit	50,209	50,209	47,912	2,297
Financial Institutions Commission	25,581	25,581	25,548	33
Ethics Commission	35,947	32,447	21,395	11,052
Ngardmau Free Trade Zone Authority	18,434	21,134	21,134	-
Palau National Code Commission	37,791	34,091	21,388	12,703
PSB Investigation	-	-	6,316	(6,316)
Language Commission	39,000	37,300	37,284	16
Total Boards, Commissions and Authorities	636,606	716,706	616,304	100,402
Judicial Branch:				
Judiciary	2,175,000	2,200,000	2,199,311	689
Total Judicial Branch	2,175,000	2,200,000	2,199,311	689
Olbiil Era Kelulau:				
Senate	846,100	913,100	877,172	35,928
Senate Staff	366,000	366,000	430,266	(64,266)
Senate Legal Counsel Office	150,000	147,000	141,297	5,703
Senate Committees	290,710	290,710	253,268	37,442
House of Delegates	1,111,050	1,118,650	1,101,379	17,271
House of Delegates Vice Speaker Office	24,000	24,000	20,956	3,044
House of Delegates Floor Leader Office	24,000	24,000	22,476	1,524
Delegate Staff	453,500	453,500	443,322	10,178
Delegates Legal Counsel Office	150,700	172,700	172,448	252
House of Delegates Committees	192,250	192,250	219,321	(27,071)
Joint Staff	194,000	230,200	228,899	1,301
Association of Pacific Island Legislatures	5,000	5,000	5,000	-
Asian-Pacific Parliamentarians' Union	5,000	5,000	1,800	3,200
Total Legislative Branch	3,812,310	3,942,110	3,917,604	24,506
State Block Grants	4,822,000	4,872,000	4,735,883	136,117
Independent Agencies:				
Office of the Public Auditor	376,797	362,797	345,958	16,839
Office of the Special Prosecutor	108,764	97,964	89,709	8,255
Palau Environmental Quality Protection Board	372,760	336,160	326,027	10,133
National Postal Service	327,539	324,539	324,410	129
Palau Visitors Authority	625,000	625,000	625,000	-
Palau Public Utility Corporation Emergency	1,125,854	1,125,854	1,125,592	262
National Aviation Administration	127,204	151,504	151,420	84
Total Independent Agencies	3,063,918	3,023,818	2,988,116	35,702
Other Agencies and Activities:				
Casino Gaming	766	766	528	238
Palau National Museum	148,398	163,398	163,398	-
Micronesia Legal Services	125,000	125,000	125,000	-
WIA Grant Contribution	89,407	89,407	89,316	91
Palau Community Action Agency	176,000	196,000	196,000	-
Head Start Program Grant Match Funds	93,094	93,094	93,094	-
Civic Action Team Share	250,000	250,000	250,000	-
PNOC and Sports Organizations	149,700	169,700	165,613	4,087
Palau International Coral Reef Center	356,708	356,708	356,708	-
Peace Corps Contribution	25,000	25,000	22,556	2,444
Medical Savings Fund - Subscription Costs	400,000	400,000	304,063	95,937
2012 World Expo	-	15,000	13,949	1,051
Cost of Living Allowance	-	325,000	278,480	46,520
Palau Red Cross	9,217	9,217	9,217	-
Total Other Agencies and Activities	1,823,290	2,218,290	2,067,922	150,368

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## Schedule of Revenues, Expenditures, and Changes in Fund Balance, Continued Budget and Actual - General Fund (Fund 100100)

Year Ended September 30, 2012

	Budgeted Amounts			
	Original	Final	Actual	Variance
Education Assistance:				
Palau Community College Operations	2,558,200	2,558,200	2,558,200	-
PCC Board of Trustees	38,000	38,000	38,000	-
COM Board of Regents	25,000	25,000	25,000	-
PCC CRE Program	35,000	35,000	35,000	-
Aid to Non-Public Schools	675,000	675,000	675,000	-
Total Education Assistance	3,331,200	3,331,200	3,331,200	-
Other Appropriations:				
Financial and Compliance Audit	425,000	425,000	325,000	100,000
Compact Review Office	154,588	154,588	153,882	706
Low-Income Assistance	75,000	75,000	-	75,000
11th Festival of Pacific Arts	-	63,600	63,018	582
Total Other Appropriations	654,588	718,188	541,900	176,288
Total expenditures	52,132,571	58,568,871	57,441,127	1,127,744
Deficiency of revenues under expenditures	(3,138,571)	(3,138,571)	(3,773,250)	(634,679)
Other financing sources (uses):				
Loan proceeds	-	-	3,472,734	3,472,734
Operating transfers in:				
Palauan Ed Textbook Development and Sales Fund	-	-	21,303	21,303
Public and Law Access Unit Fund	-	-	107,794	107,794
Operator License Fund	-	-	210,619	210,619
EQPB Trust Fund	-	-	117,187	117,187
Compact Section 211(f) Trust Fund	5,000,000	5,000,000	5,000,000	-
Compact Direct Economic Assistance Fund	2,000,000	2,000,000	2,000,000	-
Total other financing sources	7,000,000	7,000,000	10,929,637	3,929,637
Operating transfers out:				
Debt Service Fund	(2,713,000)	(2,713,000)	(2,179,147)	533,853
National Scholarship Fund	(1,270,000)	(1,270,000)	(1,246,273)	23,727
Total other financing uses	(3,983,000)	(3,983,000)	(3,425,420)	557,580
Total other financing sources (uses), net	3,017,000	3,017,000	7,504,217	4,487,217
	(121,571)	(121,571)	3,730,967	3,852,538
Other changes:				
Write-off of Pacific Savings Bank account	-	-	(49,888)	(49,888)
Pension plan interest	-	-	(330,971)	(330,971)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	121,571	121,571	559,541	437,970
Net change in fund balance	\$ -	\$ -	\$ 3,909,649	\$ 3,909,649

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**GRANTS FUND**

September 30, 2012

The grants fund is used to account for grants received from the United States government and other countries.

See Accompanying Independent Auditors' Report.



# REPUBLIC OF PALAU

## GRANTS FUND

### Combining Balance Sheet September 30, 2012

	341000	350100	350200	360100	420100	440100	
	Compact Direct Economic Assistance	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
<b><u>ASSETS</u></b>							
Receivables, net:							
General	\$ -	\$ 1,277	\$ -	\$ -	\$ -	\$ -	\$ 1,277
Federal agencies	-	1,725,617	391,707	-	1,684,944	-	3,802,268
Due from other funds	-	-	-	762,494	-	669,929	1,432,423
Advances	-	86,532	1,474	53,974	180	4,244	146,404
Prepaid items	-	216,403	30	62,272	-	98,749	377,454
Total assets	<u>\$ -</u>	<u>\$ 2,029,829</u>	<u>\$ 393,211</u>	<u>\$ 878,740</u>	<u>\$ 1,685,124</u>	<u>\$ 772,922</u>	<u>\$ 5,759,826</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
<b><u>(DEFICIT)</u></b>							
Liabilities:							
Accounts payable	\$ -	\$ 585,791	\$ 31,331	\$ 182,148	\$ -	\$ -	\$ 799,270
Contracts payable	-	65,049	-	-	1,473,538	531,140	2,069,727
Deferred revenues	-	-	-	690,271	-	236,644	926,915
Other liabilities and accruals	-	73,432	502	6,321	298	5,138	85,691
Due to other funds	-	1,270,861	352,388	-	222,302	-	1,845,551
Total liabilities	<u>-</u>	<u>1,995,133</u>	<u>384,221</u>	<u>878,740</u>	<u>1,696,138</u>	<u>772,922</u>	<u>5,727,154</u>
Fund balances (deficit):							
Nonspendable	-	216,403	30	62,272	-	98,749	377,454
Restricted	-	-	8,960	-	-	-	8,960
Unassigned	-	(181,707)	-	(62,272)	(11,014)	(98,749)	(353,742)
Total fund balances (deficit)	<u>-</u>	<u>34,696</u>	<u>8,990</u>	<u>-</u>	<u>(11,014)</u>	<u>-</u>	<u>32,672</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 2,029,829</u>	<u>\$ 393,211</u>	<u>\$ 878,740</u>	<u>\$ 1,685,124</u>	<u>\$ 772,922</u>	<u>\$ 5,759,826</u>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GRANTS FUND

### Combining Statement of Revenues, Expenditures By Function, and Changes in Fund Balances (Deficit) Year Ended September 30, 2012

	341000	350100	350200	360100	420100	440100	
	Compact Direct Economic Assistance	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
Revenues:							
Federal contributions	\$ -	\$ 9,824,939	\$ 655,188	\$ -	\$ 4,402,753	\$ -	\$ 14,882,880
Compact funding	2,000,000	-	-	-	-	-	2,000,000
Other grants	-	-	-	1,950,903	-	13,209,766	15,160,669
Total revenues	2,000,000	9,824,939	655,188	1,950,903	4,402,753	13,209,766	32,043,549
Expenditures:							
Current:							
Legislative Branch	-	-	-	1,989	-	-	1,989
Office of the President	-	298,504	-	928,829	-	-	1,227,333
Ministry of Finance	-	-	84,776	6,319	-	-	91,095
Ministry of State	-	-	-	38,086	-	-	38,086
Ministry of Community and Cultural Affairs	-	-	-	1,372	-	-	1,372
Ministry of Education	-	4,203,625	-	99,208	-	-	4,302,833
Ministry of Public Infrastructure, Industry and Commerce	-	208,027	-	86,528	-	-	294,555
Ministry of Justice	-	109,291	17,957	-	-	-	127,248
Ministry of Health	-	4,723,718	-	321,078	-	-	5,044,796
Ministry of Natural Resources, Environment and Tourism	-	281,774	-	22,021	-	-	303,795
Independent Agencies	-	-	98,356	257,820	-	-	356,176
Financial and Compliance Audit	-	-	68,500	-	-	-	68,500
Capital projects	-	-	411,545	-	4,402,753	13,120,176	17,934,474
Total expenditures	-	9,824,939	681,134	1,763,250	4,402,753	13,120,176	29,792,252
Excess (deficiency) of revenues over (under) expenditures	2,000,000	-	(25,946)	187,653	-	89,590	2,251,297
Other financing uses:							
Operating transfers out	(2,000,000)	-	-	-	-	-	(2,000,000)
Net change in fund balances (deficit)	-	-	(25,946)	187,653	-	89,590	251,297
Fund balances (deficit) at beginning of year	-	34,696	34,936	(187,653)	(11,014)	(89,590)	(218,625)
Fund balances (deficit) at end of year	\$ -	\$ 34,696	\$ 8,990	\$ -	\$ (11,014)	\$ -	\$ 32,672

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## GRANTS FUND

### Combining Schedule of Expenditures By Object Year Ended September 30, 2012

	341000	350100	350200	360100	420100	440100	
	Compact Direct Economic Assistance	U.S. Federal Grants	OTIA Direct Grants	Other Non U.S. Federal Grants	Non-DOI Capital Projects	Other Country Grants	Total
Expenditures:							
Salaries and wages	\$ -	\$ 3,465,684	\$ 31,917	\$ 350,316	\$ 19,342	\$ 365,471	\$ 4,232,730
Freight	-	23,340	-	700	-	54	24,094
Rentals	-	199,832	-	31,035	-	3,238	234,105
Communications and postage	-	135,118	4,586	8,661	-	52,742	201,107
Advertising	-	57,277	2,515	13,694	-	9,238	82,724
Professional and contractual services	-	1,510,912	205,186	224,938	-	901,588	2,842,624
Supplies and materials	-	524,498	5,297	103,841	-	289,596	923,232
Petroleum products	-	156,623	-	35,890	-	90,918	283,431
Food stuffs	-	33,583	-	50,349	-	3,006	86,938
Books and library materials	-	86,809	-	-	-	-	86,809
Medical supplies	-	170,711	-	2,945	-	-	173,656
Travel	-	1,116,111	12,002	123,977	-	15,135	1,267,225
Equipment	-	274,751	259,417	55,373	(8,400)	158,597	739,738
Insurance	-	504	-	739	-	-	1,243
Training	-	24,225	-	13,835	-	-	38,060
Donations	-	-	-	820	-	50	870
Payments of allotments/benefits	-	302,234	-	651,679	-	237,916	1,191,829
Dues, fees and registration	-	51,871	-	945	-	-	52,816
Board compensation	-	158,255	-	54,863	-	-	213,118
Allowances	-	9,230	-	-	-	-	9,230
Repairs and maintenance	-	69,080	-	4,235	-	6,208	79,523
Construction	-	455,348	160,214	-	4,391,811	10,341,936	15,349,309
Vehicles	-	57,839	-	-	-	20,895	78,734
Buildings	-	-	-	-	-	552,128	552,128
Capital outlays	-	7,889	-	-	-	-	7,889
Utilities	-	57,630	-	150	-	71,460	129,240
Scholarships	-	684,688	-	34,000	-	-	718,688
Miscellaneous	-	190,897	-	265	-	-	191,162
Total expenditures	\$ -	\$ 9,824,939	\$ 681,134	\$ 1,763,250	\$ 4,402,753	\$ 13,120,176	\$ 29,792,252

See Accompanying Independent Auditors' Report.

## REPUBLIC OF PALAU

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2012

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Palauan Ed Textbook Development and Sales Fund - This fund accounts for the sales and purchase of education textbooks.

Public and Law Access Unit Fund - This fund accounts for the Publication and Law Access Unit which provides digital and hard copy publications of ROP national and state laws, court decisions, and other laws including rules, regulations, treaties, and executive orders and directives.

Drug Fine Collection Fund - This fund accounts for receipt of drug fines to be used to supplement rewards offered by the Crime Stoppers program for information regarding drug-related crimes and for the operation of drug treatment and counseling programs.

Sports Facilities Fund – This fund accounts for receipt of sports facilities use fees to be used to maintain the sports facilities.

Hospital Trust Fund - This fund accounts for receipt of hospital fee collections. Of the amount collected, all funds are to be used at the direction of the Minister of Health exclusively for medical and pharmaceutical supplies except collections from medical referral patients shall apply to future medical referrals.

EQPB Trust Fund - This fund accounts for receipt of fines and penalties for violations of the Environmental Quality Protection Act.

Agrifund – This fund accounts for sales and purchase of agriculture items.

Operator License Fund – This fund accounts for receipt of vehicle operator license fees to be used to cover expenses of the improved vehicle operator licenses.

Compact Section 211(b) Energy Fund - This fund has been established to account for funds provided pursuant to the Compact of Free Association, Section 211(b).

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

Combining Balance Sheet  
September 30, 2012

	100115	100130	100140	100145	100147	100148	100160	300100	311120	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License	EQPB Trust	Agrifund	Compact Section 211(b) Energy	Total
<b>ASSETS</b>										
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 29
Receivables, net:										
General	-	2,069	-	-	-	-	-	-	-	2,069
Due from other funds	-	407,450	-	-	416	-	-	-	40,373	448,239
Advances	-	480	-	-	-	-	-	-	-	480
Prepaid items	-	20,413	-	-	-	-	-	-	-	20,413
Restricted assets:										
Investments	-	-	-	-	-	-	-	-	3,001,051	3,001,051
Total assets	<u>\$ -</u>	<u>\$ 430,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,041,453</u>	<u>\$ 3,472,281</u>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>(DEFICIT)</b>										
Liabilities:										
Accounts payable	\$ -	\$ 174,990	\$ -	\$ 157	\$ -	\$ 8,405	\$ 6,813	\$ -	\$ -	\$ 190,365
Accrued payroll and others	-	-	-	-	-	-	124	-	-	124
Due to other funds	17,611	-	-	-	-	-	-	2,499	-	20,110
Total liabilities	<u>17,611</u>	<u>174,990</u>	<u>-</u>	<u>157</u>	<u>-</u>	<u>8,405</u>	<u>6,937</u>	<u>2,499</u>	<u>-</u>	<u>210,599</u>
Fund balances (deficit):										
Nonspendable	-	20,413	-	-	-	-	-	-	-	20,413
Restricted	-	-	-	-	-	-	-	-	3,041,453	3,041,453
Committed	-	235,009	-	-	416	-	-	-	-	235,425
Unassigned	(17,611)	-	-	(157)	-	(8,405)	(6,937)	(2,499)	-	(35,609)
Total fund balances (deficit)	<u>(17,611)</u>	<u>255,422</u>	<u>-</u>	<u>(157)</u>	<u>416</u>	<u>(8,405)</u>	<u>(6,937)</u>	<u>(2,499)</u>	<u>3,041,453</u>	<u>3,261,682</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 430,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,041,453</u>	<u>\$ 3,472,281</u>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

### Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances (Deficit) Year Ended September 30, 2012

	100115	100130	100140	100145	100147	100148	100160	300100	311120	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License Fund	EQPB Trust	Agrifund	Compact Section 211(b) Energy	Total
Revenues:										
Fees and charges	\$ 5,255	\$ 2,793,829	\$ -	\$ 20,201	\$ -	\$ 58,410	\$ 33,420	\$ 13,430	\$ -	\$ 2,924,545
Licenses and permits	-	1,030	-	-	-	-	-	-	-	1,030
Net change in the fair value of investments	-	-	-	-	-	-	-	-	3,333	3,333
Total revenues	5,255	2,794,859	-	20,201	-	58,410	33,420	13,430	3,333	2,928,908
Expenditures:										
Current:										
Ministry of State	-	-	-	3,435	-	-	-	-	-	3,435
Ministry of Community and Cultural Affairs	-	-	-	-	1,108	-	-	-	-	1,108
Ministry of Justice	25,700	-	-	-	-	30,420	-	-	-	56,120
Ministry of Health	-	2,689,564	-	-	-	-	-	-	-	2,689,564
Ministry of Natural Resources, Environment and Tourism	-	-	-	-	-	-	-	11,220	-	11,220
Independent Agencies	-	-	-	-	-	-	38,319	-	-	38,319
Investment management fees	-	-	-	-	-	-	-	-	2,282	2,282
Total expenditures	25,700	2,689,564	-	3,435	1,108	30,420	38,319	11,220	2,282	2,802,048
Excess (deficiency) of revenues over (under) expenditures	(20,445)	105,295	-	16,766	(1,108)	27,990	(4,899)	2,210	1,051	126,860
Other financing uses:										
Operating transfers out	-	-	(21,303)	(107,794)	-	(210,619)	(117,187)	-	-	(456,903)
Net change in fund balances (deficit)	(20,445)	105,295	(21,303)	(91,028)	(1,108)	(182,629)	(122,086)	2,210	1,051	(330,043)
Fund balances (deficit) at beginning of year	2,834	150,127	21,303	90,871	1,524	174,224	115,149	(4,709)	3,040,402	3,591,725
Fund balances (deficit) at end of year	\$ (17,611)	\$ 255,422	\$ -	\$ (157)	\$ 416	\$ (8,405)	\$ (6,937)	\$ (2,499)	\$ 3,041,453	\$ 3,261,682

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

### Combining Schedule of Expenditures by Object Year Ended September 30, 2012

	100115	100130	100140	100145	100147	100148	100160	300100	311120	
	Drug Fine Collection	Hospital Trust	Palauan Ed Textbook Development and Sales	Public and Law Access Unit	Sports Facilities Trust	Operator License Fund	EQPB Trust	Agrifund	Compact Section 211(b) Energy	Total
Expenditures:										
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343	\$ -	\$ -	\$ 343
Rentals	-	4,200	-	-	-	-	7,068	-	-	11,268
Communications and postage	-	-	-	431	-	-	208	-	-	639
Medical referrals	-	1,225,000	-	-	-	-	-	-	-	1,225,000
Professional and contractual services	-	-	-	-	-	200	133	-	-	333
Supplies and materials	-	48,731	-	3,004	1,108	20,195	19,352	-	-	92,390
Food stuffs	-	-	-	-	-	-	252	-	-	252
Medical supplies	-	1,248,352	-	-	-	-	-	-	-	1,248,352
Travel	-	62,991	-	-	-	-	10,963	-	-	73,954
Equipment	-	-	-	-	-	2,498	-	-	-	2,498
Payments of allotments/benefits	-	-	-	-	-	-	-	11,220	-	11,220
Investment management fees	-	-	-	-	-	-	-	-	2,282	2,282
Dues, fees and registration	-	782	-	-	-	-	-	-	-	782
Repairs and maintenance	-	-	-	-	-	7,527	-	-	-	7,527
Miscellaneous	25,700	99,508	-	-	-	-	-	-	-	125,208
Total expenditures	<u>\$ 25,700</u>	<u>\$ 2,689,564</u>	<u>\$ -</u>	<u>\$ 3,435</u>	<u>\$ 1,108</u>	<u>\$ 30,420</u>	<u>\$ 38,319</u>	<u>\$ 11,220</u>	<u>\$ 2,282</u>	<u>\$ 2,802,048</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER INFORMATION**

September 30, 2012

A brief discussion of other information presented for additional analysis as of September 30, 2012, follows:

Combining Schedule of Expenditures By Object:  
All Governmental Funds

Other Country Grants:  
Schedule of Expenditures of Other Country Grants

Other Grants:  
Schedule of Expenditures of Other Grants

See Accompanying Independent Auditors' Report.



# REPUBLIC OF PALAU

## Combining Schedule of Expenditures by Object Governmental Funds Year Ended September 30, 2012

		Special <u>Revenue</u>	<u>Permanent</u>	Other Governmental Funds	
	General	Grants	Compact Section 211(f)		Total
Expenditures:					
Salaries and wages	\$ 31,325,237	4,232,730	\$ -	\$ 343	\$ 35,558,310
Freight	14,090	24,094	-	-	38,184
Rentals	561,416	234,105	-	11,268	806,789
Communications and postage	733,783	201,107	-	639	935,529
Advertising	56,268	82,724	-	-	138,992
Medical referrals	321,934	-	-	1,225,000	1,546,934
Professional and contractual services	445,482	2,842,624	-	333	3,288,439
Supplies and materials	1,294,111	923,232	-	92,390	2,309,733
Petroleum products	947,946	283,431	-	-	1,231,377
Food stuffs	671,904	86,938	-	252	759,094
Books and library materials	149,587	86,809	-	-	236,396
Medical supplies	1,022,479	173,656	-	1,248,352	2,444,487
Travel	770,164	1,267,225	-	73,954	2,111,343
Equipment	203,290	739,738	-	2,498	945,526
Insurance	13,903	1,243	-	-	15,146
Training	15,633	38,060	-	-	53,693
Donations	287,747	870	-	-	288,617
Payments of allotments/benefits	8,517,415	1,191,829	-	11,220	9,720,464
Representation and entertainment	10,108	-	-	-	10,108
Investment management fees	12,576	-	1,196,528	2,282	1,211,386
Dues, fees and registration	260,961	52,816	-	782	314,559
Board compensation	91,394	213,118	-	-	304,512
Allowances	208,120	9,230	-	-	217,350
Repairs and maintenance	360,505	79,523	-	7,527	447,555
Construction	92,920	15,349,309	-	-	15,442,229
Machinery	56,400	-	-	-	56,400
Vehicles	110,442	78,734	-	-	189,176
Furniture and fixtures	650	-	-	-	650
Boats	100	-	-	-	100
Computer software	17,049	-	-	-	17,049
Buildings	-	552,128	-	-	552,128
Improvements	227,457	-	-	-	227,457
Capital outlays	-	7,889	-	-	7,889
Utilities	5,923,441	129,240	-	-	6,052,681
Principal retirement	1,599,998	-	-	-	1,599,998
Interest charges	579,149	-	-	-	579,149
Bad debts	49,888	-	-	-	49,888
Student loans	559,675	-	-	-	559,675
Scholarships	615,277	718,688	-	-	1,333,965
Bank service fee	1,170	-	-	-	1,170
Grants and contributions	4,985,888	-	-	-	4,985,888
Miscellaneous	624,619	191,162	-	125,208	940,989
	<u>\$ 63,740,176</u>	<u>\$ 29,792,252</u>	<u>\$ 1,196,528</u>	<u>\$ 2,802,048</u>	<u>\$ 97,531,004</u>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER COUNTRY GRANTS FUND

### Schedule of Expenditures of Other Country Grants Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<b>ROC TAIWAN GRANT 2000</b>						
F03135	FI/TAX ADVISORY SERVICES	\$ 69,625	\$ -	\$ -	\$ -	\$ -
R03097	HATOHOBEL STATE PROJECT	80,000	-	-	-	-
R03099	SONSOROL STATE PROJECT	100,000	-	-	-	-
R03108	PALAU INT'L AIRPORT IMPV	843,976	-	-	-	-
R03109	PELELIU PRIMARY RD ASPHLT	1,233,000	-	-	-	-
R03111	MALAKAL BRIDGE INSPECTION	37,637	-	-	-	-
R03114	NGERIKIL PUMP REPLACEMENT	140,286	-	-	-	-
R03115	AIRAI WTP MOTOR CENTR&STO	460,279	-	-	-	-
R03116	FACILITIES REPAIR & RENOV	356,378	-	-	-	-
R03117	GOVT OFFICE FACIL IMPROV	353,669	-	-	-	-
R03118	KAYANGEL WATER SYSTEM	300,000	-	-	-	-
R03136	NTF AGRICULTURE DEVEL	69,037	-	-	-	-
R03137	ROC PROJECT MANAGEMENT	106,563	-	-	-	-
R24941	CENTRAL MKRT & CULT. CNTR	2,500,000	-	-	-	-
R24940	PALAU NAT'L MUSEUM COMPLEX	2,600,000	(26,981)	(33,348)	-	6,367
R03120	AIRPORT GENERATOR	95,612	(6,367)	-	-	(6,367)
	<b>SUB TOTAL</b>	<b>9,346,062</b>	<b>(33,348)</b>	<b>(33,348)</b>	<b>-</b>	<b>-</b>
<b>STATE ECONOMIC STIMULUS PACKAGE 2002</b>						
B20102	ELECHUI ROAD EXT/IMPROVMT	20,000	-	-	-	-
B20103	MEDORM ROAD EXT/IMPROVMT	30,000	-	-	-	-
B20301	DOCK IMPROVEMENT STUDY	14,000	-	-	-	-
B20302	ANGAUR ROAD EXTENSION	60,000	-	-	-	-
B20304	ANGAUR WATER LINE PROJECT	50,000	-	-	-	-
B20701	HEADSTART BUILDING CONST	50,000	-	-	-	-
B20702	NGERULIANG ROAD PAVING	30,000	-	-	-	-
B20703	OLD AGE CENTER	20,000	-	-	-	-
B21102	STATE ROAD IMPROVEMENTS	50,000	-	-	-	-
B21501	ELOCHEL DOCK TERMINAL/OFF	100,000	-	-	-	-
R24870	CLASSROOM & FACILITY PROJ	174,665	-	-	-	-
B21001	NGARDMAU ROAD & DOCK PROJ	100,000	(530)	-	-	(530)
R24890	SDA SCHL ROAD IMPV PROJ	100,000	(4,497)	(5,027)	-	530
	<b>SUB TOTAL</b>	<b>798,665</b>	<b>(5,027)</b>	<b>(5,027)</b>	<b>-</b>	<b>-</b>
<b>STATE ECONOMIC STIMULUS PACKAGE 2003</b>						
B30103	MEDORM ABAI ROOFING EXTEN	8,000	-	-	-	-
B30502	DESPENSARY FACILITY IMPRV	120,000	-	-	-	-
B30603	NGERBECHED LANDFIL DRAIN	10,000	-	-	-	-
B30604	KOROR CBD/CAUSEWAY RD POS	10,000	-	-	-	-
B30605	MEYUNS ELEMENTARY PHAS2&3	7,000	-	-	-	-
B30702	MAIN ROAD STRIP CONCR PAV	100,000	-	-	-	-
B30802	CHOLL VARIOUS PROJECTS	50,000	-	-	-	-
B30902	OKOTOL ROAD CONSTRUCT/IMP	100,000	-	-	-	-
B30904	OLLEI STORAGE TANK PROJ	20,000	-	-	-	-
B31101	ROAD CONSTRUCTION & IMPRO	70,000	-	-	-	-
B31201	NGATPANG DOCK/AQUA IMPROV	50,000	-	-	-	-
B31202	AQUACULTURE PROJECT	50,000	-	-	-	-
B31301	CONCRETE ROAD PAVING/IMPR	100,000	-	-	-	-
B31401	WATER PUMP	8,000	-	-	-	-
B31501	PELELIU INCINERATOR PROJ	46,000	-	-	-	-
B31601	TELECOMMUNICATION UPGRADE	75,000	-	-	-	-
R34838	TEAKWOOD AND LUMBER	35,000	-	-	-	-
R34840	FISHING AGGREGATE DEVICES	100,000	-	-	-	-
R34843	BLS LAND SURVEYING EQUIP	85,000	-	-	-	-
F34817	NEW PRODUCT DEV COMMITTEE	75,000	-	-	-	-
R34960	NORTHERN BABLD'D WTRLINE	1,100,000	-	-	-	-
R34891	PELELIU CONCRETE RD EXT	500,000	-	-	-	-
R44893	INTER-ISLAND WATER TRANS	791,000	-	-	-	-
J34920	BPS EQUIP IMPRV. GRANTS	664,000	-	-	-	-
R24831	COMPLETION OF CAPITAL,ETC	6,799,000	-	-	-	-
R24832	ROADS,PARKING LOTS & ETC	2,750,000	-	-	-	-
R24834	LANDSCAPING & ETC	451,000	-	-	-	-
B30102	ELECHUI WATER SYSTEM	70,000	(31)	-	-	(31)
B30104	MEDORM RD EXTENTION/IMPRO	30,000	(17,646)	(5,424)	-	(12,222)

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**  
**OTHER COUNTRY GRANTS FUND**

Schedule of Expenditures of Other Country Grants, Continued  
Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>STATE ECONOMIC STIMULUS PACKAGE 2003, CONTINUED</u>						
B30202	NGERIKIL PUMP STATION	30,000	(8,857)	-	-	(8,857)
B30303	STATE BOAT DRYDOCK	35,000	35,000	-	-	35,000
B30306	ANGARU STATE OFFICE RENOV	15,000	(5,000)	-	-	(5,000)
B31403	CLAM FARM	10,000	(4,913)	-	-	(4,913)
B31502	CAMP BECK DREDGING	50,000	14,712	-	-	14,712
R34839	CLAM FARMING PROJECTS	100,000	(326)	-	-	(326)
R34841	NATL CAPITAL REL PH III	3,450,000	(18,363)	-	-	(18,363)
	SUB TOTAL	17,964,000	(5,424)	(5,424)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2004</u>						
B40101	MEDORM/ELECHUI RD IMPROVE	735,001	-	-	-	-
B40201	KASEBELAU RD EXT/FIRE HYD	126,000	-	-	-	-
B40301	ANGAUR STATE BOAT DRYDOCK	35,000	-	-	-	-
B40604	ENVIRON ASSESSMENT STUDY	-	-	-	-	-
B40702	MELEKEOK ROAD IMPROVEMENT	100,000	-	-	-	-
B40801	ROAD CONSTRUCT/IMPROVE	100,000	-	-	-	-
B41001	ROAD CONSTRUCT/IMPROVE	50,000	-	-	-	-
B41101	ROAD CONSTRUCT/IMPROVE	50,000	-	-	-	-
B41401	NGIRNGEMELAS SQUARE	50,000	-	-	-	-
B41501	ASPHALT RD REPAIR/IMPROV	300,000	-	-	-	-
B41502	PELELIU WAR MEMORIAL	5,000	-	-	-	-
R44847	NEW CAPITOL FINISHING PRO	100,000	-	-	-	-
R44873	PUBLIC SCHOOLS FAC IMPROV	200,000	-	-	-	-
R44896	KOROR CNT PAVEMENT REPAIR	171,000	-	-	-	-
R44963	KOROR WTR/WASTEWTR PARTS	145,448	-	-	-	-
T44895	INTERNAT'L WATER TRANSPOR	137,000	-	-	-	-
F44818	NEW PRODUCT DEV COMMITTEE	25,000	-	-	-	-
R44962	CAPITAL PH III - SEWER	2,783,000	-	-	-	-
R44826	MELEKEOK/NGIWA INCINERAT	495,000	-	-	-	-
R54822	INT/EXTERIOR OF CAPITOL B	3,200,000	-	-	-	-
R54827	N BABELDAOB WATERLINE EXT	50,000	-	-	-	-
R54828	CUSTOMS MODERNIZATION PRO	360,000	-	-	-	-
R54829	GUAM/PALAU COMM CENTER	100,000	-	-	-	-
B40701	MELEKEOK STATE BUILDING	11,000	(9,351)	(9,351)	-	-
B40401	WATER SYSTEM IMPROVEMENT	80,000	-	-	-	-
B40402	WAVE RETAINING WALL/EROSI	15,000	(5,321)	(5,321)	-	-
B40501	ISLAND RING ROAD	92,000	(17,097)	(17,097)	-	-
B40601	T-DOCK REPAIR	500,000	(1,441)	(1,441)	-	-
	SUB TOTAL	10,015,449	(33,210)	(33,210)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2005</u>						
B50101	NEKKEN WATER SYS IMPROVE	150,000	-	-	-	-
B50104	MONGAMI ROAD IMPROVEMENT	25,000	-	-	-	-
B50202	AIRAI ROAD IMPROVEMENT	100,000	-	-	-	-
B50302	ANGAUR OLD AGE CNTR IMPRO	50,000	-	-	-	-
B50304	ANGAUR COMM CNTR IMPROVE	25,000	-	-	-	-
B50305	ANGAUR ELEM SCH WALKWAY	5,000	-	-	-	-
B50306	ANGAUR STATE OFFICE RENOV	-	-	-	-	-
B50401	TOBI SOLAR LIGHTING SYSTE	25,000	-	-	-	-
B50402	TOBI STATE BOAT DRYDOCK	75,000	-	-	-	-
B50503	KAYANGEL OLD AGE CENTER	28,000	-	-	-	-
B50504	KAYANGEL DISPENSARY IMPRO	-	-	-	-	-
B50601	NGARACHAMAYONG ABAI CONST	150,000	-	-	-	-
B50801	NGARAARD ROAD IMPROVEMENT	150,000	-	-	-	-
B50802	NGEBUKED ABAI KITCHEN IMP	60,000	-	-	-	-
B50804	REMACHEL TO ULUCHEL ROAD	50,000	-	-	-	-
B50901	NGARCHELONG ROAD IMPROVE	100,000	-	-	-	-
B50902	MENGELLANG ABAI/TYPHOON S	50,000	-	-	-	-
B50904	OLLEI WATER STORAGE TANKS	-	-	-	-	-
B51001	NGARDMAU DOCK IMPROVEMENT	100,000	-	-	-	-
B51101	NGAREMLENGUI ROAD IMPROVE	170,000	-	-	-	-
B51203	NGATPANG AQUACULTURE PROJ	120,000	-	-	-	-
B51301	NGCHESAR ROAD IMPROVEMENT	200,000	-	-	-	-

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER COUNTRY GRANTS FUND

### Schedule of Expenditures of Other Country Grants, Continued Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>STATE ECONOMIC STIMULUS PACKAGE 2005, CONTINUED</u>						
B51401	NGIWAL ROAD IMPROVEMENT	100,000	-	-	-	-
B51402	NGIWAL 2007 IMPROV PROJ	75,000	-	-	-	-
B51501	PELELIU REV OSMOSIS WTR S	-	-	-	-	-
B51602	SONSOROL WATER SYSTEM	8,000	-	-	-	-
B51604	SONSOROL STATE BOAT	100,000	-	-	-	-
R54847	NEW CAPITOL RELOCATION	55,000	-	-	-	-
H54852	MOH AHU SYSTEM	190,000	-	-	-	-
C54964	SOUTH PACIFIC MINI GAMES	1,290,000	-	-	-	-
B50602	T-DOCK POOL FILL & PAVING	20,000	(19,000)	(19,000)	-	-
B51601	SONSOROL INTERSTATE TRANS	92,000	(22,087)	(22,087)	-	-
	SUB TOTAL	3,563,000	(41,087)	(41,087)	-	-
<u>STATE ECONOMIC STIMULUS PACKAGE 2006</u>						
B60101	MEDORM ROAD IMPROVEMENT	100,000	-	-	-	-
B60102	ELECHUI ROAD IMPROVEMENT	20,000	-	-	-	-
B60201	ORDOMEL ROAD REPAIR PROJ	350,000	-	-	-	-
B60202	AIRAI ROAD IMPROVE PROJ	200,000	-	-	-	-
B60301	ANGAUR ROAD IMP PROJ FY06	105,000	-	-	-	-
B60302	ANGAUR BAI RENOV FY06	21,500	-	-	-	-
B60303	ANGAUR BOAT REPAIR FY06	33,500	-	-	-	-
B60401	HELEN REEF CONSERV PROJ	55,000	-	-	-	-
B60406	HATOHOBEL SOLAR PROJECT	25,000	-	-	-	-
B60407	TOBI WATER SYSTEM IMPROV	15,000	-	-	-	-
B60408	TOBI MEDICAL DISPENSARY	35,000	-	-	-	-
B60409	TOBI HOUSING PRESERVATION	35,000	-	-	-	-
B60501	KAYANGEL WATER SYSTEM P3	215,000	-	-	-	-
B60603	KB BRIDGE WTRLINE REPAIR	40,000	-	-	-	-
B60605	MARINE RESOURCE ROAD PROJ	100,000	-	-	-	-
B60606	KOROR PARKS IMPROVEMENT	50,000	-	-	-	-
B60701	MELKEOK MAIN ROAD REHAB	100,000	-	-	-	-
B60801	NGARAARD BASEBALL FIELD	150,000	-	-	-	-
B60901	MENGELLANG ABAI ADDTNL	10,000	-	-	-	-
B60902	NGARCHELONG ROAD IMPROV	100,000	-	-	-	-
B61001	NGARDMAU WATERFALL PARKIN	100,000	-	-	-	-
B61201	NGATPANG AQUACULTURE FY06	100,000	-	-	-	-
B61601	SOLAR LIGHTING SYSTEM	50,000	-	-	-	-
R64816	POST OFFICE BLDG EXPANSIO	45,000	-	-	-	-
R64819	CULTURAL CENTER AUDIO/VIS	175,000	-	-	-	-
R64846	PELELIU/ANGAUR RUNWAY LGH	58,000	-	-	-	-
R64847	CAPITOL FINISHING-ADDN'L	432,000	-	-	-	-
R64849	NTF AGRICULTURE DEV/BIODI	20,000	-	-	-	-
R64889	K/A RD REPAIR&LANDFILL 06	50,000	-	-	-	-
R64966	CAPITOL/MELEKEOK SEWER SY	300,000	-	-	-	-
R64967	AIRAI WTR TREATMENT SYSTE	250,000	-	-	-	-
R64968	STATE WATER SYSTEMS	150,000	-	-	-	-
R64969	WATER METERING	200,000	-	-	-	-
R64966	CAPITOL/MELEKEOK SEWER SY	300,000	-	-	-	-
R64967	AIRAI WTR TREATMENT SYSTE	250,000	-	-	-	-
R64968	STATE WATER SYSTEMS	150,000	-	-	-	-
R64969	WATER METERING	200,000	-	-	-	-
R64998	MUSEUM PROJECT FY06	125,000	-	-	-	-
J64923	PTRL BOAT DRYDOCK/REFIT06	200,000	-	-	-	-
J64924	PS PATROL MOTORCYCLES	200,000	-	-	-	-
H64853	MOH PAC SYSTEM	350,000	-	-	-	-
A64834	OPERATION COUNTER INVASIO	100,000	-	-	-	-
A64834	OPERATION COUNTER INVASIO	-	-	-	-	-
F64815	2007 FEMM	10,000	-	-	-	-
R64970	KOROR WASTEWTR COLLECT SY	2,000,000	-	-	-	-
R64873	SCHOOL FACILITIES FY'06	1,000,000	-	-	-	-
R64898	AIRPORT-NERIKIL RD. FY06	3,000,000	-	-	-	-
R64899	NGARAARD ROAD FY'06	1,000,000	-	-	-	-
R54845	OKOTOL HARBOR IMPROV PROJ	200,000	-	-	-	-
R64827	NORTH BABELDAOB WATERLINE	115,000	5,508	-	-	5,508

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

**Schedule of Expenditures of Other Country Grants, Continued  
Year Ended September 30, 2012**

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<b>STATE ECONOMIC STIMULUS PACKAGE 2006, CONTINUED</b>						
R64836	WB PETROLEUM T/A MATCHING	200,000	19,600	-	-	19,600
R84898	PHASE IV-FINAL A/N ROAD	3,100,000	-	46,295	-	(46,295)
	SUB TOTAL	16,190,000	25,108	46,295	-	(21,187)
<b>BABELDAOB INTRA-STATE ROADS &amp; DOCK IMPROVEMENTS</b>						
B70901	NGARCHELONG ROAD REHAB	-	-	-	-	-
G70001	BABL INTRA ST RD IMPROVEM	-	-	-	-	-
G70102	AIMELIIK-COFA CONNECT RD	200,000	-	-	-	-
G70201	NGERUSAR-KED RD IMPROVE	200,000	-	-	-	-
G70801	NGARAARD STATE RD IMPROVE	245,000	-	-	-	-
G70901	NGARCHELONG MAIN RD REHAB	200,000	-	-	-	-
G71101	NGAREMLENGUI STATE RD IMP	100,000	-	-	-	-
G71301	NGCHESAR ROAD PROJECT	200,000	-	-	-	-
F73966	PM & SP CAPACITY BLDG PRO	75,000	-	-	-	-
R74898	AIRPORT TO NGERIKIIL ROAD	3,300,000	-	-	-	-
R74845	OKOTOL DOCK IMPROVE PH II	1,000,000	-	-	-	-
R74848	CAPITOL STANDBY GENERATOR	1,600,000	-	-	-	-
G70101	MEDORM HAMLET RD REPAIR	200,000	3,866	3,813	-	53
G71401	IMEKANG DOCK IMPROVE	200,000	(53)	-	-	(53)
	SUB TOTAL	7,520,000	3,813	3,813	-	-
<b>STATE ECONOMIC STIMULUS PACKAGE 2008</b>						
B80101	AIMELIIK ROAD REPAIR PROJ	25,000	-	-	-	-
B80102	ELECHUI WATER SYS - PH II	150,000	(7,234)	-	-	(7,234)
B80103	AIMELIIK PUBL WORKS BLDG	50,000	(16,750)	-	11,750	(5,000)
B80202	AIRAI ROAD IMPROVEMENT PR	239,000	-	-	-	-
B80401	TOBI VARIOUS IMPROV PROJ	-	-	-	-	-
B80501	KAYANGEL GARBAGE FACILITY	65,000	(38,429)	-	-	(38,429)
B80601	KOROR KB BRIDGE PARK PROJ	-	-	-	-	-
B80701	MELEKEOK ROAD IMPROVEMENT	100,000	-	-	-	-
B80801	CHOLL TYPHOON SHELTER	200,000	160,683	-	43,094	203,777
B80803	NGARAARD NEW ROAD PROJ	100,000	(30,631)	-	-	(30,631)
B80804	NGARAARD WATER PUMP STATI	50,000	(48,341)	-	-	(48,341)
B80805	ORREDAKL TO ULIMANG ROAD	300,000	(81)	-	-	(81)
B80901	NGARCHELONG MAIN ROAD IMP	100,000	(4,073)	-	-	(4,073)
B81001	NGARDMAU ROAD PAVING PROJ	250,000	(96)	-	-	(96)
B81101	NGERMETENGEL COMM BAI	225,000	(412)	-	-	(412)
B81102	NGERMETENGEL DOCK IMPROVE	125,000	(68,266)	-	53,100	(15,166)
B81103	NGAREM ROAD IMPR PH IV	40,000	(345)	-	-	(345)
B81104	NGAREML ELEM ROAD PAVEMNT	60,000	(8,521)	-	-	(8,521)
B81105	NGARMESKANG WTRFALLS ROAD	100,000	(98,886)	-	76,500	(22,386)
B81201	AQUACULTURE PROJ PHIV	150,000	(96)	-	-	(96)
B81301	NGCHESAR MAIN ROAD IMPROV	200,000	(32,204)	-	-	(32,204)
B81401	NGI WAL WATER SYSTEM IMPRO	160,000	99,993	-	-	99,993
B81402	NGI WAL DOCK REPAIR	40,000	(20,053)	-	-	(20,053)
B81501	PELELIU STATE BOAT REPAIR	330,000	(9,604)	-	-	(9,604)
S78969	PALAU DIGITAL ARCHIVING	125,000	(3,191)	-	-	(3,191)
S84813	CNMI CONSUL ABAI CONTRIB	25,000	-	-	-	-
P84810	COMPACT REVIEW	175,000	-	-	-	-
P84811	PRES DIGITAL ARCHIV/OTHER	225,000	(36)	-	-	(36)
F84812	CAPITOL COMPLX INFO SUPPL	347,000	(161,307)	-	6,350	(154,957)
F84814	CAPITOL COMPLEX MIS-PH2	1,000,000	(100,400)	-	-	(100,400)
H84854	HOSP SOLAR LIGHTING PROJ	2,500,000	(56,388)	-	-	(56,388)
R84971	KOROR SEWER SYS PROJ PH 2	2,255,000	247,652	-	-	247,652
	SUB TOTAL	9,711,000	(197,016)	-	190,794	(6,222)
<b>STATE ECONOMIC STIMULUS PACKAGE 2009</b>						
B90701	MELEKEOK MAIN ROAD	850,000	(67,720)	-	62,088	(5,632)
R94823	IMEKANG DOCK	1,000,000	6,053	-	-	6,053
J94825	GLOBAL POSITIONING SYSTEM	1,900,000	(2,000)	-	-	(2,000)
J94826	LIGHT EMITTING DIODE	800,000	2,203	-	-	2,203
B90901	NGERCHELONG MAIN ROAD	810,000	(3,691)	-	6,930	3,239
B91101	NGERMLENGUI BRIDGE	640,000	(3,218)	-	-	(3,218)
R94824	KOKSAI/NGCHESAR ACCESS RD	5,000,000	(21,142)	(14,995)	-	(6,147)
	SUB TOTAL	11,000,000	(89,515)	(14,995)	69,018	(5,502)

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER COUNTRY GRANTS FUND

### Schedule of Expenditures of Other Country Grants, Continued Year Ended September 30, 2012

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<b>STATE ECONOMIC STIMULUS PACKAGE 2010</b>						
B00201	RABIT FISH HATCHERY FY2010	400,000	(25,992)	-	23,710	(2,282)
B01001	NGARDMAU CONCRETE ROAD FY2010	500,000	(25,795)	-	-	(25,795)
B01002	NGARDMAU BOTANICAL GARDEN FY2010	30,000	-	-	-	-
B01201	TWN EXPERT AQUACULTURE FY2010	150,000	(3,061)	-	33,157	30,096
B01301	NGCHESAR CONCRETE ROAD FY2010	600,000	(34,385)	-	506	(33,879)
H04850	MOH EQUIP & OTHERS FY2010	1,500,000	(20,380)	(17,113)	-	(3,267)
R04821	ENERGY EFFICIENT BUILDING FY2010	445,000	(19,472)	(19,472)	-	-
R04824	KOKSAI-NGCHESAR ROAD II FY2010	3,000,000	352,348	-	4,850	357,198
R04830	AGRI DEV. CENTER FY2010	750,000	(39,512)	(16,289)	23,166	(57)
R04835	COCONUT TREE PLANTING FY2010	175,000	(10,488)	(9,628)	-	(860)
R04837	MALAKAL MARINE RESOURCE FY2010	750,000	(72,954)	-	72,750	(204)
R04840	STATE MARINE SANCTUARY FY2010	400,000	(45,424)	(37,251)	6,917	(1,256)
R04842	TWN EXPERT AGRICULTURE FY2010	150,000	(1,608)	-	28	(1,580)
R04844	BEAUTIFICATION PROJECT FY2010	100,000	(5,000)	-	25,000	20,000
R04871	PCC SCHOOL OF EXCELENCE FY2010	300,000	-	-	-	-
R04872	BASKETBALL COURTS FY2010	150,000	68	-	-	68
R04873	MOE SOLAR PROJECT FY2010	600,000	(61,981)	(61,981)	-	-
	<b>SUB TOTAL</b>	<b>10,000,000</b>	<b>(13,636)</b>	<b>(161,734)</b>	<b>190,084</b>	<b>338,182</b>
<b>STATE ECONOMIC STIMULUS PACKAGE 2011</b>						
B10101	KOKSAI-NEKKEN RD. FY2011	525,000	(95,450)	289,250	383,693	(1,007)
B10201	RABIT FISH HATCH EQP FY11	30,000	(30,000)	-	30,000	-
B10202	AIRAI ROAD FY2011	350,000	64,023	192,500	128,277	(200)
B10601	NGERMID RD PROJ. PH I FY11	400,000	5,471	220,000	214,180	(349)
B10602	T/M-DOCK RD. REHAB FY2011	500,000	29,880	250,000	219,482	(638)
B10701	MELKEOK HIST PIER FY2011	200,000	29,667	110,000	75,337	(4,996)
B10801	NGARARD RD. ULI-ELAB FY11	150,000	(49,439)	-	124,351	74,912
B10802	NGARARD RD. NGKEKLAU FY11	250,000	(62,097)	107,500	192,405	22,808
B10901	NGARCHELONG ROAD FY2011	275,000	(5,457)	151,250	156,703	(4)
B10902	BADRULCHAU TOUR.CNTR FY11	50,000	(39,933)	10,000	38,023	(11,910)
B11001	NGARDMAU RD. PHIII FY2011	250,000	(586)	112,500	107,771	(5,315)
B11101	NGERML ROAD REHAB FY2011	500,000	(48,109)	275,000	303,886	(19,223)
B11201	TWN EXPERT AQUA FY2011	29,000	(14,500)	14,500	19,500	(9,500)
B11301	NGCHESAR ST. ROAD FY2011	250,000	(83,360)	-	220,804	137,444
C14821	JUDICIARY INFO SYST FY'11	820,000	41,534	630,000	577,465	(11,001)
R14824	KOKSAI-NGCHSR RD PH I FY11	4,000,000	(219,414)	2,200,000	2,422,982	3,568
R14830	LIVESTOCK DEV. PROJ FY'11	173,000	(89,720)	30,000	155,376	35,656
R14837	MALAKAL MRN RES PHII FY11	500,000	(101,210)	305,000	406,208	(2)
R14842	TWN EXPERT AGRI FY2011	29,000	(14,500)	14,500	29,000	-
R14844	GREEN REVLTN PHIII FY'11	300,000	(183,990)	40,000	263,066	39,076
R14971	KOR SEWER PMP UPG FY2011	400,000	8,700	240,000	230,137	(1,163)
R1PE01	TWN INFRA PROJ. EVAL FY11	19,000	(3,300)	10,000	13,300	-
	<b>SUB TOTAL</b>	<b>10,000,000</b>	<b>(861,790)</b>	<b>5,202,000</b>	<b>6,311,946</b>	<b>248,156</b>
<b>STATE ECONOMIC STIMULUS PACKAGE 2012</b>						
B20104	KOKS-NEKN RD PH II FY2012	500,000	-	325,000	118,049	(206,951)
B20105	AIM CONN. ROAD PHII 2012	150,000	-	50,000	55,646	5,646
B20202	RBT FISH FLTING CAGE 2012	60,000	-	6,000	-	(6,000)
B20203	AIRAI RD REHAB PH VI 2012	600,000	-	570,000	398,083	(171,917)
B20204	OMIKOLL WATER LINE 2012	50,000	-	10,000	502	(9,498)
B20205	NGRKIL WTR DIST SYS 2012	300,000	-	170,000	161,932	(8,068)
B20305	ANGAUR BUCKHOE X2 FY2012	100,000	-	150,000	100,000	(50,000)
B20501	KAYANGEL SOLAR FY2012	100,000	-	30,000	56,160	26,160
B20601	NGERMID RD REHAB P I 2012	320,000	-	288,000	256,763	(31,237)
B20602	T-DOCK PHASE II 2012	320,000	-	320,000	263,439	(56,561)
B20603	IYEBUKEL ROAD REHAB 2012	400,000	-	220,000	176,791	(43,209)
B20604	NGERBECHED RD REHAB 2012	335,000	-	201,000	262,808	61,808
B20605	MALAKAL PRT RD REHAB 2012	120,000	-	60,000	83,835	23,835
B20606	YANOS MARKT ACCES RD 2012	55,000	-	40,000	31,542	(8,458)
B20607	DESEKEL RD. REHAB 2012	250,000	-	187,500	197,003	9,503
B20690	8 PPUC/MALAKAL RD 2012	100,000	-	90,000	82,797	(7,203)
B20609	POST TO HEADSTART RD 2012	150,000	-	135,000	124,599	(10,401)
B20802	NGARAARD ROAD REHAB 2012	100,000	-	197,500	84,098	(113,402)
B20901	NGERCH WATER SYST 2012	350,000	-	200,000	198,999	(1,001)

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

**OTHER COUNTRY GRANTS FUND**

**Schedule of Expenditures of Other Country Grants, Continued  
Year Ended September 30, 2012**

Cost Center	Grantor Account Title	Budget Authorizations	Receivable from Grantor (Deferred Revenue) at 10/1/11	Cash Receipts FY2012	Expenditures FY2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<b><u>STATE ECONOMIC STIMULUS PACKAGE 2012, CONTINUED</u></b>						
B21001	NGARDMAU ROAD P IV 2012	100,000	-	100,000	80,603	(19,397)
B21103	NGRML RD REHAB PH II 2012	400,000	-	300,000	333,754	33,754
B21401	NGIWAL ROAD REHAB 2012	100,000	-	100,000	81,948	(18,052)
B21502	PELELIU GRADERS X2 FY2012	100,000	-	50,000	100,000	50,000
E24871	PHS DORM PROJ. FY2012	700,000	-	210,000	205,686	(4,314)
R24821	PROJECT EVALUATOR FY2012	25,000	-	12,500	25,000	12,500
R24824	KOKSAI-NGCHSR RD PH FY12	3,500,000	-	2,000,000	2,112,953	112,953
R24830	ANIMAL PRODUCTION 2012	492,400	-	472,320	219,550	(252,770)
R24837	GROUPE PROJECT FY2012	182,600	-	127,820	127,820	-
R24840	FISHING AGGR. DEVICE 2012	40,000	-	5,000	265	(4,735)
	<b>SUB TOTAL</b>	<b>10,000,000</b>	<b>-</b>	<b>6,627,640</b>	<b>5,940,625</b>	<b>(687,015)</b>
B24996	CERAMIC ARTS PROJ FY2012	86,805	-	86,805	86,805	-
J24826	KORDA UDEDEL BELAU	100,000	-	100,000	100,455	455
R24901	BUOY REHAB 2012	24,242	-	24,242	-	(24,242)
	<b>SUB TOTAL</b>	<b>211,047</b>	<b>-</b>	<b>211,047</b>	<b>187,260</b>	<b>(23,787)</b>
<b><u>ROC TAIWAN PROJECT CENTRAL ADMINISTRATIVE COST</u></b>						
R04999	ROC TWN ADMIN COST	668,957	(18,706)	291,012	178,519	(131,199)
R24999	AIRAI NGERIKIIL ROAD	-	-	-	51,930	51,930
	<b>SUB TOTAL</b>	<b>668,957</b>	<b>(18,706)</b>	<b>291,012</b>	<b>230,449</b>	<b>(79,269)</b>
	<b>GRAND TOTAL</b>	<b>\$ 116,988,180</b>	<b>\$ (1,269,838)</b>	<b>\$ 12,086,982</b>	<b>\$ 13,120,176</b>	<b>\$ (236,644)</b>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>UNFPA Grant</u>						
UNFPA FY 1996	H63920	57,889	1,058	-	-	1,058
GENDER FHSS FY'12 MOF	F2FHSS	13,435	-	13,435	-	(13,435)
GENDER FHSS FY'12	H2FHSS	31,565	-	31,565	26,177	(5,388)
RHCS FY'12	H2RHCS	102,889	-	15,000	10,895	(4,105)
Total UNFPA Grant		205,778	1,058	60,000	37,072	(21,870)
<u>UN Pop Education Program</u>						
UN Pop Education Program 1995	E53921	22,940	(1,188)	-	-	(1,188)
Population Education Grants 1996	E63921	27,295	(1,894)	-	-	(1,894)
Population Education Grants 1998	E83921	9,180	(7,239)	-	-	(7,239)
UNFPA - Census Relates 1996	S63921	16,000	(606)	-	-	(606)
Total UN Pop Education Program		75,415	(10,927)	-	-	(10,927)
<u>UNCCD Grant Committee</u>						
UNCCD 4th National Report	A03923	4,000	155	-	-	155
Solar Energy MGMT Demo	A83923	90,000	(5,000)	-	-	(5,000)
UNCCD Gran Committee	S03923	22,950	(4,851)	-	-	(4,851)
Total UNCCD Grant Committee		116,950	(9,696)	-	-	(9,696)
<u>UNESCO-PALAU PUBLIC LIBRARY</u>						
Unesco-Pal Public Library	E33924	15,000	(546)	-	-	(546)
<u>WHO APW HEALTH CAREER TRNG</u>						
WHO APW HLTH CAREER TRNG	H43927	32,250	(958)	-	-	(958)
WHO APW HLTH CAREER TRNG	H63927	15,200	(830)	-	-	(830)
WHO PHARMACY MIS	H0WHO1	6,790	189	-	554	743
WHO OTHERS	H0WHO2	10,000	(3,848)	15,050	-	(18,898)
PHARMACY TECH ONLINE TRNG	H0WHO3	14,929	3,325	8,929	5,776	172
CE RESIDENCY PROG FY10	H0WHO4	15,200	(8,000)	-	-	(8,000)
HRD PROGRAMS	H9WHO1	16,000	996	-	-	996
QA PROGRAMS	H9WHO2	9,000	125	-	-	125
BHCS STRATEGIC PLAN	H9WHO3	14,000	(342)	-	130	(212)
BPMS STRATEGIC PLAN	H9WHO4	24,000	(162)	-	(1,356)	(1,518)
TOBACCO	H9WHO5	3,000	-	-	-	-
WHO HEALTHY WORK PLACE	H9WHO6	27,000	(5)	-	-	(5)
WHO INJURY PREVENTION	H9WHO7	12,500	(1,320)	-	-	(1,320)
POLHN	H9WHO8	26,000	71	-	-	71
Gender Tobacco	H9WHO9	15,000	(1,700)	-	1,689	(11)
LF & NTD SUREVEY	H1WHO0	12,000	(12,000)	-	7,419	(4,581)
COLLEGE OF HEALTH	H1WHO1	40,200	(4,243)	34,600	26,818	(12,025)
STEPS TRAINING FY2011	H1WHO2	5,000	(2,500)	9,900	1,053	(11,347)
HLTH COMM TRAINING FY2011	H1WHO3	7,000	(3,816)	9,500	3,423	(9,893)
SCHL GARDENING PROG FY11	H1WHO4	20,000	(8,300)	19,900	-	(28,200)
WHO FELLOWSHIP PROG FY11	H1WHO5	45,000	(3,292)	9,800	36,196	23,104
MOH LIBRARY UPGRD POLN	H1WHO6	39,700	(1,899)	20,000	10,756	(11,143)
WHO TOBACCO	H1WHO7	34,400	4,454	29,400	20,619	(4,327)
CLIMATE CHANGE FY11	H1WHO8	5,000	(2,500)	-	1,050	(1,450)
PW NTAT'L STEPS SURVEY	H1WHO9	64,700	(23,500)	36,700	48,290	(11,910)
WHO IMMUNIZATION TRNG '12	H23927	15,300	-	15,300	-	(15,300)
MALE HEALTH WORKSHOP FY '12	H2WHO1	9,600	-	-	7,482	7,482
STAKEHOLDERS WHO TCTC FY '12	H2WHO2	9,900	-	-	8,910	8,910
WORLD DIABETES DAY FY '12	H2WHO3	9,500	-	-	6,443	6,443
2ND PNEC NCD PREVENTION & CONTROL	H2WHO4	9,900	-	-	8,201	8,201
ICS MEETING MOH F/UP FY '12	H2WHO5	9,800	-	-	6,954	6,954
NCP PREVENTION WORKSHOP MOE FY '12	H2WHO6	23,180	-	23,180	8,468	(14,712)
INT'L HEALTH LOGISTIC SUPP	H2WHO7	27,200	-	27,200	5,656	(21,544)
INT'L HEALTH STRATEGIC PLAN	H2WHO8	15,450	-	15,450	-	(15,450)
NCD WORKSHOP YOUTH CONF	H2WHO9	3,810	-	-	3,810	3,810
Total WHO APW Health Career Trng		647,509	(70,055)	274,909	218,341	(126,623)
<u>UNDP Public Sector Program</u>						
UNDP Public Sector Program	A73929	447,642	-	-	-	-
PAL Capacity Dev for NPP	F83929	45,000	25	-	-	25
UN DEVEL PROGRAMME (UNDP)	F53929	161,000	-	-	-	-
Total UNDP Public Sector Program		653,642	25	-	-	25

See Accompanying Independent Auditors' Report.



# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants, Continued Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>Climate Change (UN) GET</u>						
National Biodiversity Plan	A23930	330,000	(11,870)	-	-	(11,870)
Climate Change Interim	A43930	15,000	(313)	-	-	(313)
2ND National Comm. UNFCCC	A63930	405,000	115,010	-	-	115,010
PAC ADAPT TO CLIMATE CHNG	A93930	741,000	75,024	107,969	115,040	82,095
PACC MOH - Implementing Partner	H13930	17,000	(17,000)	-	11,375	(5,625)
PACC BMR - Implementing Partner	M13930	11,000	(11,000)	-	6,292	(4,708)
PACC BOA - Implementing Partner	N13930	11,000	(11,000)	-	10,305	(695)
PACC Palaris - Implementing Partner	R13930	20,000	(20,000)	-	43,763	23,763
PACC EQPB PROJECT	R23930	5,472	-	-	5,472	5,472
Total Climate Change (UN) GET		1,555,472	118,851	107,969	192,247	203,129
<u>National Biosafety Framework</u>						
National Biosafety Framework	A23931	131,000	42,350	-	-	42,350
<u>GEF Operational Focal Point</u>						
GEF Operational Plan	A23932	33,000	2,070	-	-	2,070
<u>SPREP (International Water IWP)</u>						
Int'l Water of the Pac	A23933	97,875	(568)	-	-	(568)
Int'l Water of the Pacific FY04	F43933	310,900	3,700	-	-	3,700
Total SPREP (International Water IWP)		408,775	3,132	-	-	3,132
<u>UNDP (WSSD Grants)</u>						
UNDP (WSSD) Projects	A23934	5,965	(50)	-	-	(50)
CEDAW Translation	COUN01	4,000	-	-	-	-
Int'l Women's Day 2010	COUN02	2,000	-	-	-	-
17th Annual Women's Conference	COUN03	1,000	-	-	-	-
Total UNDP (WSSD Grants)		12,965	(50)	-	-	(50)
<u>SPREP</u>						
Ozone Depleting Substance	A33936	50,000	7,943	-	142	8,085
Ozone Depleting Substance	A73936	26,733	9,037	-	-	9,037
Ozone Depleting Substance	A03936	60,000	(30,315)	-	24,906	(5,409)
Ozone Depleting Substance	A13936	26,688	(18,843)	6,688	8,120	(17,411)
Total SPREP		163,421	(32,178)	6,688	33,168	(5,698)
<u>PADI Aware Foundation</u>						
Project Aware	A33937	1,500	21,284	-	-	21,284
<u>UN Pops Grants</u>						
U.N. Pops Grant	A33938	346,400	11,816	-	-	11,816
<u>UNDP (NCSA) Global Env. Mgmt.</u>						
UNDP (Global Env. Mgmt.)	A33939	25,000	24,838	-	-	24,838
<u>UNICEF</u>						
Justice Program	J33940	6,200	(345)	-	-	(345)
<u>PALAU NCSA</u>						
PALAU NCSA - TTP/03/G41	F43943	200,000	(29,792)	-	-	(29,792)
<u>Access to Benefit Sharing</u>						
Access to Benefit Sharing Program	F43945	31,343	(19)	-	-	(19)
<u>FOOD &amp; AGRICULTURE</u>						
National Forest Policy	R53946	4,350	(833)	-	-	(833)
<u>REPORT ON BIODIVERSITY</u>						
NR4 GEF-CBD BTNA Phase II	A03947	15,000	13,091	-	9,727	22,818
3rd Report on Biodiversity	A63947	16,500	(199)	-	-	(199)
Total Report on Biodiversity		31,500	12,892	-	9,727	22,619
<u>8th OEK Orientation &amp; WRKS</u>						
8th OEK Orientation & WRKS	K93948	22,000	(281)	-	-	(281)
Support to ROP Congress Projects	K13948	200,000	(173)	2,475	1,989	(659)
Total 8th OEK Orientation & WRKS		222,000	(454)	2,475	1,989	(940)

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants, Continued Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>UNEP / FNR-RIO</u>						
FNR to Rio Convention	A03949	34,567	(8,225)	-	9,955	1,730
<u>SAICM - EQPB</u>						
QSP Trust Fund - SAICM	R93951	125,000	(47,980)	-	33,316	(14,664)
<u>PW Feasibility Study Energy</u>						
PW Feasibility Study	R83953	17,000	(378)	-	-	(378)
<u>2ND FRANCE-OCEANIA SUMMIT</u>						
2nd France-Oceania Summit	A63954	34,410	(1,307)	-	-	(1,307)
3RD FRANCE-OCEANIA SUMMI	P93954	22,904	-	-	-	-
HUMAN RIGHTS ACT FY '12	S23954	40,000	-	40,000	20,000	(20,000)
Total 2ND FRANCE-OCEANIA SUMMIT		97,314	(1,307)	40,000	20,000	(21,307)
<u>Watercourse Splash</u>						
Watercourse Splash	A23955	6,000	(104)	-	-	(104)
<u>Japan Grant (Horifuma Arima)</u>						
Japan Grant (Horifuma Arima)	A23956	70,809	5	-	-	5
Ngchesar Elementary School Renovation	E43956	54,895	(52)	-	-	(52)
Nippon Foundation Grant	R63956	25,493	(6,898)	-	-	(6,898)
Total Japan Grant (Horifuma Arima)		151,197	(6,945)	-	-	(6,945)
<u>SPREP Grants (Fruit Fly)</u>						
SPREP Grants (Fruit Fly)	R23957	4,495	(15)	-	-	(15)
<u>President (Korean Grant)</u>						
President (Korean Grant)	A23958	9,532	(509)	-	-	(509)
14th APPCED Conference	K03958	20,000	(69)	-	-	(69)
Palau Submarine Fiber Optic Cable Study	K13958	100,000	(24,961)	-	25,087	126
Total President (Korean Grant)		129,532	(25,539)	-	25,087	(452)
<u>Electronic Tech. Grants (Japan Grant)</u>						
Electronic Tech. Grants (Japan Grant)	A23959	500,000	(27,208)	-	-	(27,208)
<u>Canada Funds</u>						
Palau National Youth Policy	C43960	36,500	(1,088)	-	215	(873)
<u>Secretariat Pacific Comm</u>						
Secretariat Pacific Comm	R13961	6,000	2,837	-	-	2,837
<u>Vanuatu Grants</u>						
Vanuatu Grants (NEMO)	A13962	8,269	(863)	-	-	(863)
<u>SPF Org. Comm - China Grants</u>						
SPF Org. Comm - China Grants	A93963	231,000	(839)	-	-	(839)
<u>AUSAID Small Grants</u>						
SGS-Educational Video Equipments	H23964	23,750	-	23,750	-	(23,750)
<u>Info Dev. Planning (IBRD)</u>						
Info Dev. Implement (IBRD)	A93960	200,000	21,225	-	-	21,225
Info Dev. Planning (IBRD)	A93965	103,627	(21,380)	-	-	(21,380)
Total Info Dev. Planning (IBRD)		303,627	(155)	-	-	(155)
<u>Republic of China Grants</u>						
China Grants - Sport Comm	A83966	56,087	-	-	-	-
National Youth Policies Development	C43966	6,000	(2,296)	-	-	(2,296)
PM & SP Capacity Building	F63966	200,000	(134)	-	-	(134)
PM & SP Capacity Building	F73966	10,000	(10,000)	-	-	(10,000)
ROC-PAC Summit Security	J63966	30,000	(5,132)	-	-	(5,132)
Micronesia Chief Executive Summit	S13966	50,000	346	-	597	943
Total Republic of China Grants		352,087	(17,216)	-	597	(16,619)

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants, Continued Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<b>Forum Secretariat Grants</b>						
Forum Sect. Drought Relief 1998	A83967	10,180	(2,156)	-	-	(2,156)
Forum Import Mang Wrkshp 2001	A13967	2,300	2,028	-	-	2,028
Chief Executive Summit	S13967	20,000	(126)	-	-	(126)
PIFS/SISDF-TNP Program fy2012	S2SIS1	3,451	-	3,451	3,451	-
Total Forum Secretariat Grants		35,931	(254)	3,451	3,451	(254)
<b>Computerization (State)</b>						
Computerization (State) 1998	S83968	10,000	(172)	-	-	(172)
<b>FFA - Grants (President's Office)</b>						
FAA- President's Office	A03969	19,941	(50)	-	-	(50)
FFA - President's Office	A13969	39,000	(70)	-	-	(70)
FFA - President's Office	A23969	61,195	(50)	-	-	(50)
FFA - President's Office	A33969	71,194	(1,474)	-	-	(1,474)
36TH PACIFIC ISLS FORUM	A53969	68,360	(47)	-	-	(47)
FFA - President's Office	A73969	86,100	(258)	-	-	(258)
FFA - President's Office	A83969	14,980	(14,980)	-	-	(14,980)
FFA - Conferences	A93969	4,975	(727)	-	-	(727)
PALM 2000 (Tokyo Japan)	S03969	16,656	(495)	-	-	(495)
TRAVEL - FOC/FORUM Meeting	P63969	65,000	(2,716)	-	-	(2,716)
Annual Meeting of IWC	P73969	18,600	(5,192)	-	-	(5,192)
Total FFA - Grants (President's Office)		466,001	(26,059)	-	-	(26,059)
<b>PMA Office Building/Infrastructure</b>						
PMA Office Building/Infrastructure 1995	A53970	39,994	(2,219)	-	-	(2,219)
PMA Observer & Monitoring 1996	A63970	66,790	(2,605)	-	-	(2,605)
SPREP (CBEMP) Palau EQPB 2000	R03970	8,895	(397)	-	-	(397)
Total PMA Office Building/Infrastructure		115,679	(5,221)	-	-	(5,221)
<b>Fisheries Forum Agency</b>						
FAA Recrit Qualiry Pers	A13971	30,000	(1,154)	-	-	(1,154)
TAIYO (TAOCH) CLEARING	B91401	25,000	25,000	-	-	25,000
Vessel Monitoring System	J13971	22,009	(131)	38,546	4,650	(34,027)
Marine Law Observer	J8FFA1	25,000	(2,765)	-	-	(2,765)
Palau PDF 15%	R03971	74,774	(45,717)	(22,009)	16,918	(6,790)
42nd PIF Leaders Meeting	R13971	63,842	(22,271)	-	19,172	(3,099)
Fisheries & Maritime Cons.	R23971	30,000	25	-	-	25
55th Tuna Conference	R43971	16,203	(190)	-	-	(190)
FFC59 MEETING IN MAJURO	R53971	4,348	(27)	-	-	(27)
FFA-Palau PDF Fund- 15%	R83971	165,940	(71,282)	-	-	(71,282)
FFA Sonsorol Fishing Boat	S53971	114,975	(2,337)	-	-	(2,337)
Boundary Delimitation Pro	S73971	16,985	(362)	-	-	(362)
FFA (PDF Conference)	S83971	4,980	(1,159)	-	-	(1,159)
PI Forum Leaders Meeting	S8FFA1	100,000	(2,099)	-	-	(2,099)
Total Fisheries Forum Agency		694,056	(124,469)	16,537	40,740	(100,266)
<b>Foreign Grants State</b>						
Office Equip - Australia Grant	S50301	38,027	(1,639)	-	-	(1,639)
SPC Youth Skills Training	S53972	5,000	(2,706)	-	-	(2,706)
Total Foreign Grants State		43,027	(4,345)	-	-	(4,345)
<b>SPREP (Ngermeduu Conservation)</b>						
Marine Project / Area Project	B23972	13,252	(5,303)	-	-	(5,303)
Ngermeduu Conservation Area	R23972	27,500	(3,718)	-	-	(3,718)
Ngermeduu Conservation Area	R33972	30,000	(6,305)	-	-	(6,305)
FFA Ngarchelong Clam Project	S23972	20,000	25	-	-	25
Total SPREP (Ngermeduu Conservation)		90,752	(15,301)	-	-	(15,301)
<b>GIS/GPS Training (SPREP)</b>						
GIS/GPS Training	R23973	32,296	(12,641)	-	9,781	(2,860)
<b>Tax Equipment Furniture &amp; Supplies</b>						
Tax Equipment Furniture & Supplies	A83973	25,000	(260)	-	-	(260)

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants, Continued Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>Palau Youth Empowerment Fund</u>						
Palau Youth Empowerment Fund 1998	C83974	53,551	(13,645)	-	872	(12,773)
PMA Port Samplers (SPC)	R63974	14,790	(392)	-	-	(392)
Total Palau Youth Empowerment Fund		68,341	(14,037)	-	872	(13,165)
<u>Australian Grants</u>						
Coral Reef Aware Program	A43975	2,000	(2,000)	-	-	(2,000)
Project 5/99	A93975	1,572	(19)	-	-	(19)
Equipment for Youth Program	C03975	1,984	(194)	-	-	(194)
MCCA-BPNA Palauan Language & CASP	C1ARC1	10,725	(14,250)	-	2,002	(12,248)
MCCA-BPNA Survey Analysis	C1ARC2	12,558	-	-	-	-
Pur Microfilm Read/Printer	C65001	8,600	(298)	-	-	(298)
Inventory Bar Code System	H43975	13,800	(4,143)	-	-	(4,143)
AUSAID	H73975	4,800	-	-	-	-
CAP BLDG HUMAN RIGHTS FY'12	P23975	20,000	-	20,000	-	(20,000)
Ramsar Wetl'ds Cons Fund	S70201	6,796	(5,721)	-	-	(5,721)
Total Australian Grants		82,835	(26,625)	20,000	2,002	(44,623)
<u>Japan Rotary Club Donation</u>						
Japan Rotary Club Donation	R63976	24,725	(106)	-	-	(106)
Pal/Jpn Fisheries Conslt.	R13976	18,013	(1,208)	-	-	(1,208)
Total Rotary Club Donation		42,738	(1,314)	-	-	(1,314)
<u>FFA - Kayangel Fishing Project</u>						
FFA Grant Tairou Group	S03977	50,000	(15)	-	-	(15)
FFA Sonsorol State Boat	S13977	100,000	(127)	-	-	(127)
Total Kayangel Fishing Project		150,000	(142)	-	-	(142)
<u>SPREP Grants</u>						
SPREP (Coral Reef Comm)1997	R73979	12,050	(287)	-	-	(287)
Pilot Project (Solid Waste)1999	R93979	39,998	(2)	-	-	(2)
CLEAN PACIFIC	R23979	2,000	-	2,000	25	(1,975)
Total SPREP Grants		54,048	(289)	2,000	25	(2,264)
<u>WildAid-Packard Foundation</u>						
WildAid-Packard Foundation	J33980	72,867	(3,254)	-	-	(3,254)
Packard EBM Project-EQPB	A63980	107,755	14,049	-	-	14,049
EQPB EBM Project Cycle II	A03980	85,012	(32,199)	-	38,947	6,748
Total WildAid-Packard Foundation		265,634	(21,404)	-	38,947	17,543
<u>Marine Res Conservation</u>						
Marine Res Conservation	R53980	38,900	(4,764)	-	-	(4,764)
<u>CDC &amp; H V Hepatitis Survey</u>						
CDC & HIV Hepatitis Survey	H33981	5,472	(15)	-	-	(15)
<u>FHP Foundation Grant</u>						
FHP Foundation Grant	H63984	39,505	(2,840)	-	-	(2,840)
<u>RR &amp; TC Pacific Basin Grant</u>						
RR & TC Pacific Basin Grant	H63985	54,000	9,900	-	-	9,900
RR & TC Pacific Basin Grant	H83985	22,000	(479)	-	-	(479)
SDSU Foundation	H93985	23,100	(178)	-	-	(178)
Total RR & TC Pacific Basin Grant		99,100	9,243	-	-	9,243
<u>Pacific Basin Development Council</u>						
Pacific Basin Development Council	A63986	4,800	(1,011)	-	-	(1,011)
<u>DNA Project (University of Utah)</u>						
Palau Youth Project 2007	H73987	22,000	(257)	-	-	(257)
Palau Youth Project	H83987	48,864	(74)	-	-	(74)
DNA Project (University of Utah)	H93987	16,700	(39)	-	-	(39)
Total DNA Project (University of Utah)		87,564	(370)	-	-	(370)

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants, Continued Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>Christa M. Fellowship Program</u>						
Christa M. Fellowship Program 1997	E73990	20,558	(4,719)	-	-	(4,719)
Christa M. Fellowship Program 1998	E83990	10,279	(79)	-	-	(79)
Christa M. Fellowship Program 1999	E93990	10,279	(279)	-	-	(279)
Christa M. Fellowship Program 2000	E03990	10,279	(4,405)	-	-	(4,405)
Christa M. Fellowship Program 2002	E23990	10,003	(4,933)	-	-	(4,933)
Total Christa M. Fellowship Program		61,398	(14,415)	-	-	(14,415)
<u>MOH SMALL GRANTS - OTHERS</u>						
MOH SEOW FY2011	H13991	100,000	(44,689)	50,000	25,490	(69,199)
MOH SEOW FY2012	H23991	37,500	-	37,500	-	(37,500)
Total MOH SMALL GRANTS - OTHERS		137,500	(44,689)	87,500	25,490	(106,699)
<u>LSTA State Grants</u>						
LSTA State Grants	E13992	40,377	(801)	-	35,735	34,934
LSTA State Grants	E03992	63,473	-	63,473	63,473	-
LSTA State Grants FY07	E73992	54,349	41,115	-	-	41,115
LSTA State Grants	E93992	44,274	(1,035)	-	-	(1,035)
LSTA State Grant 2009	E93992	41,983	(40,011)	-	-	(40,011)
Total LSTA State Grants		244,456	(732)	63,473	99,208	35,003
<u>Genetic Study (MOH)</u>						
Genetic Study	H13993	405,000	(593)	-	-	(593)
<u>Palau Public Library Grants</u>						
Palau Public Library Grant	E23994	39,630	(13,433)	-	-	(13,433)
<u>Census (Rare Ctr Trop Con)</u>						
Census	A33995	25,000	(92)	-	-	(92)
<u>Protected Areas Network</u>						
TNC MOU Assist to PAN	A83997	6,000	(57)	-	-	(57)
Protected Areas Network	R43997	39,700	(535)	-	-	(535)
Total Protected Areas Network		45,700	(592)	-	-	(592)
<u>National Assessment Report-BPOA</u>						
National Assessment Report	R48920	5,000	(2,102)	-	-	(2,102)
<u>ROP DONATIONS/RELIEF FUND</u>						
DONATIONS / RELIEF FUNDS	S28921	1,500	-	1,500	1,834	334
<u>UNDP (SEDREA) ENERGY</u>						
UNDP (SEDREA) ENERGY	A58922	25,000	-	-	-	-
Renewable Energy (SEDREA)	P98922	51,870	1,472	21,974	20,020	(482)
Total UNDP (SEDREA) ENERGY		76,870	1,472	21,974	20,020	(482)
<u>UN CEDAW</u>						
CEDAW CONSULTATION	S18924	1,741	-	2,741	1,740	(1,001)
CEDAW LEGISLATIVE REVIEW	S28924	11,095	-	11,095	11,060	(35)
Total UN CEDAW		12,836	-	13,836	12,800	(1,036)
<u>EQPB OTHER GRANTS</u>						
EQPB other grants	R28925	2,000	-	2,000	2,000	-
<u>UNEP GRANTS</u>						
NBSAP/ 5TH CBD RPT	R28926	50,000	-	50,000	-	(50,000)
<u>UOG GRANTS</u>						
MECHESIL BELAU PROJECT 2012	C28950	20,000	-	20,000	19,733	(267)
SBDC-UOG SBJA Service Contract	P18950	16,000	-	2,000	11,600	9,600
SBDC- UOG PISBDCN 2012	P28950	30,000	-	5,199	13,484	8,285
Total UOG GRANTS		66,000	-	27,199	44,817	17,618
<u>UNDP/UNCCD/GEF</u>						
UNDP (SEDREA) Energy	A68923	12,000	(113)	-	-	(113)
<u>SPAIN GRANTS</u>						
Pacific Educatin Development Framework	E18960	42,980	43,031	41,355	-	1,676

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants, Continued Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<u>10th International Coral Reef Sympo</u>						
International Coral Reef Sympo	F48961	1,400	1,400	-	-	1,400
<u>Giant Clam Farming Project</u>						
Giant Clam Farming Project	T88962	14,967	(1,636)	-	-	(1,636)
Giant Clam Farming Project	T48962	15,000	(589)	-	500	(89)
Total Giant Clam Farming Project		29,967	(2,225)	-	500	(1,725)
<u>TUNA DATA COORDINATOR</u>						
Tuna DATA Entry Technician	R88963	8,756	(12)	-	-	(12)
Tuan Data Coordinator	R68963	23,150	(7)	-	-	(7)
Total TUNA DATA COORDINATOR		31,906	(19)	-	-	(19)
<u>HOUSEHOLD INCOME/EXP SURVEY</u>						
Household Income/Expenditures Survey	F68964	26,684	(8)	-	-	(8)
<u>Fisheries Forum Association</u>						
Hosting Consultants Negotiations	S5FFA1	7,081	(4,088)	-	-	(4,088)
Foreign Dignitary Housing	S4FFA1	51,310	(2,645)	-	-	(2,645)
Total Fisheries Forum Association		58,391	(6,733)	-	-	(6,733)
<u>Korean Grants</u>						
Bur.of INT'L EXPO	S88967	7,085	18	-	-	18
<u>HOSPITAL EQUIP - INDIA GRT</u>						
HOSPITAL EQUIP - INDIA GRT	H58968	149,841	(90)	-	-	(90)
Ministry of State Equipments	S08968	100,000	(29,673)	-	25,037	(4,636)
Submarine Cable Feasability	S18968	100,000	(18,142)	-	15,137	(3,005)
Total HOSPITAL EQUIP - INDIA GRT		349,841	(47,905)	-	40,174	(7,731)
<u>PALAU DIGITAL ARCHIVING</u>						
DIGITAL ARCHIVING	S58969	240,000	(426)	-	-	(426)
<u>DRUG DETECTOR DOG UNIT</u>						
DRUG DETECTOR DOG UNIT	F58970	175,000	(71)	-	-	(71)
<u>INDEPENDENCE DAY (ROC)</u>						
12th Independence Day	P6ROC1	100,000	(1,940)	-	-	(1,940)
President's Expenses	P6ROC2	200,000	(1,735)	-	-	(1,735)
13th Independence Day	P7ROC1	50,000	(2,480)	-	-	(2,480)
Total Independence Day (ROC)		350,000	(6,155)	-	-	(6,155)
<u>CZECH REPUBLIC GRANT</u>						
Czech Dentist Dr. Palek	H78973	23,953	4,211	-	-	4,211
Dental Health Care - CZK	H98973	13,379	191	-	-	191
Total CZECH Republic Grant		37,332	4,402	-	-	4,402
<u>HUMANITARIAN ASSISTANCE TO PSB</u>						
Humanitarian Assistance to PSB	F18974	-	121,364	500,000	493,802	115,166
Humanitarian Assistance to PSB	F78974	3,355,000	(51,616)	-	-	(51,616)
Total Humanitarian Assistance to PSB		3,355,000	69,748	500,000	493,802	63,550
<u>IWRM Project (SOPAC)</u>						
IWRM Project (SOPAC)	A78975	31,300	2,139	-	6,473	8,612
SOPAC-Ngerikil Watershed	A98975	408,385	(191,214)	-	129,250	(61,964)
IWRM BOA	M98975	10,000	(2,607)	38,000	1,893	(38,714)
Water Policy Activities	P18975	42,900	(22,817)	-	30,571	7,754
IWRM Palaris	R98975	30,000	(24,572)	-	15,370	(9,202)
IWRM EQPB LAB	R28975	-	-	23,500	-	(23,500)
Total IWRM Project (SOPAC)		522,585	(239,071)	61,500	183,557	(117,014)
<u>PROTECT MARINE BIODIVERSITY</u>						
Protect Marine Biodiversity	A78976	43,000	(3,156)	-	-	(3,156)

See Accompanying Independent Auditors' Report.

# REPUBLIC OF PALAU

## OTHER GRANTS FUND

### Schedule of Expenditures of Other Grants, Continued Year Ended September 30, 2012

Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/11	Cash Receipts FY 2012	Expenditures FY 2012	Receivable from Grantor (Deferred Revenue) at 9/30/12
<b>PRIDE GRANTS</b>						
Curriculum Frameworks	E7PRI1	150,000	(1,053)	-	-	(1,053)
Palau Achievement Tests	E7PRI2	150,000	2	-	-	2
Palauan Textbook	E7PRI3	88,899	(3)	-	-	(3)
MOE School Handbook	E8PRI1	43,000	(2)	-	-	(2)
Total PRIDE GRANTS		431,899	(1,056)	-	-	(1,056)
<b>MICRONESIAN CHALLENGE DONATION</b>						
Micronesian Chalange Donation TRKY	A78978	75,000	(5,087)	-	1,765	(3,322)
Micronesian Chalange Donation Guam	A8GUM1	7,500	7,500	-	-	7,500
Micronesian Chalange Donation PAN	A9TNC1	50,000	(22,033)	-	27,625	5,592
MCT/PAN SUPPORT FY '12	R2PAN1	4,500	-	5,000	4,432	(568)
Total Micronesian Challenge Donation		137,000	(19,620)	5,000	33,822	9,202
<b>ENERGY SECT IN 5 ACP ISLS</b>						
Energy Sect in 5 ACP ISls	F88979	287,650	2,794	-	300	3,094
PAL renewable energy NPE2	F8PE02	430,170	(65,387)	-	-	(65,387)
Tech. Coop. Facility	F0TFC1	147,000	26,867	-	-	26,867
TECH COOP FACILITY (2)	F2TCF2	-	-	-	4,857	4,857
Total Energy Sect in 5 ACP ISls		864,820	(35,726)	-	5,157	(30,569)
<b>NEMO PEACESAT ASSISTANCE</b>						
Nemo PEACESAT Assistance	J68980	1,938	(217)	-	-	(217)
<b>NATIONAL FISH &amp; WILDLIFE FOUNDATION</b>						
Coral Reef Conservation	J68981	41,152	11,630	-	-	11,630
<b>Sustainable Land MGMT</b>						
Sustainable Land MGMT	A88983	475,000	12,297	57,389	56,039	10,947
<b>Taiwan (ROC) Grants</b>						
One Light Project	A18984	100,000	-	-	-	-
Energy Support ASST-OPER	A88984	1,669,000	(231,000)	-	-	(231,000)
UN 64TH GEN ASSEMBLY	A98984	50,000	-	-	-	-
Purchase X-Ray Machines	H08984	150,000	(37,183)	-	37,488	305
66th UN General Assembly	P18984	25,000	(2,815)	-	2,354	(461)
TAIWAN/PALAU UN TRAINING	S98984	30,000	820	-	-	820
Total Taiwan (ROC) Grants		2,024,000	(270,178)	-	39,842	(230,336)
<b>Turkey Grants</b>						
Continental Shelf - Ext	R98986	150,000	(17,981)	-	15,552	(2,429)
Peleliu Multipurpose Gymnasium	S98686	150,000	-	-	-	-
Total Turkey Grants		300,000	(17,981)	-	15,552	(2,429)
<b>STATISTICS</b>						
Socio Economic Assessment	H18987	35,000	27,775	-	6,104	33,879
<b>Continental Shelf 09-00180</b>						
Continental Shelf	R98988	154,765	(78,076)	-	-	(78,076)
<b>Palau Conservation Society Grants</b>						
Capacity Enhancement	R08989	3,250	(3,250)	-	-	(3,250)
Capacity Enhancement	R18989	20,000	(20,000)	-	-	(20,000)
Total Palau Conservation Society Grants		23,250	(23,250)	-	-	(23,250)
<b>PICRC Assistance</b>						
Database Design	R08990	10,000	(1,606)	-	-	(1,606)
<b>UN Grants</b>						
Biodiversity Cons Program	9935-PR0001	111,449	(655)	-	-	(655)
PALAU BSNR2 2011	A19935	15,000	-	-	5,000	5,000
Total UN Grants		126,449	(655)	-	5,000	4,345
Total Other Grants		\$ 20,446,571	\$ (963,016)	\$ 1,490,505	\$ 1,763,250	\$ (690,271)

See Accompanying Independent Auditors' Report.

**REPUBLIC OF PALAU**

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**INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2012**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

His Excellency Tommy Remengesau, Jr.  
President  
Republic of Palau:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the "Republic") as of and for the year ended September 30, 2012, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated November 14, 2013. Our report includes a reference to other auditors and an explanatory paragraph concerning restatements for the correction of misstatements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters did not include the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, the National Development Bank of Palau, the Palau International Coral Reef Center, the Palau Visitors Authority, the Public Utilities Corporation, and the Protected Areas Network, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the entities that were audited by us. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority. The findings, if any, included in those reports are not included herein.

## Internal Control Over Financial Reporting

Management of the Republic is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Republic's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 11 through 65), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-08, 2012-09, 2012-11, 2012-16, 2012-21, 2012-23 and 2012-24 to be material weaknesses.

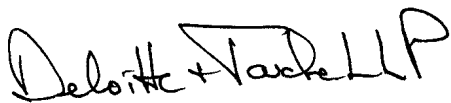
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Republic's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01, 2012-05, 2012-10, 2012-13, 2012-20, 2012-22, and 2012-25 through 2012-29.

We noted certain matters that we reported to management of the Republic in a separate letter dated November 14, 2013.

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Members of the Olbiil Era Kelulau, others within the entity, and the cognizant audit and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



November 14, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

His Excellency Tommy Remengesau, Jr.  
President  
Republic of Palau:

**Compliance**

We have audited the Republic of Palau's (the "Republic's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Republic's major federal programs for the year ended September 30, 2012. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 11 through 65). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Republic's management. Our responsibility is to express an opinion on the Republic's compliance based on our audit.

As discussed in Note 2B to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2012. Our audit, described below, did not include the operations of the entities identified in Note 2B as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Republic's compliance with those requirements.

As described in items 2012-02 through 2012-19 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, reporting, and special tests and provisions that are applicable to its Economic, Social, and Political Development of the Territories (CFDA # 15.875) major program; regarding cash management, and equipment and real property management that are applicable to its Airport Improvement Program (CFDA # 20.106) major program; regarding allowable costs/cost principles, and equipment and real property management that are applicable to its Special Education - Grants to States (CFDA # 84.027) major program; regarding equipment and real property management, and procurement and suspension and debarment that are applicable to its Freely Associated States - Education Grant Program (CFDA # 84.256) major program; regarding eligibility, and reporting that are applicable to its College Access Challenge (CFDA # 84.378) major program; regarding allowable costs/cost principles, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, program income, and reporting that are applicable to its Consolidated Health Centers (CFDA # 93.224) major program; and regarding allowable costs/cost principles, equipment and real property management, matching/level of effort/earmarking, and period of availability of federal funds that are applicable to its CDC and Prevention - Investigations and Technical Assistance (CFDA # 93.283) major program. Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Republic complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

#### Internal Control Over Compliance

Management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Republic's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

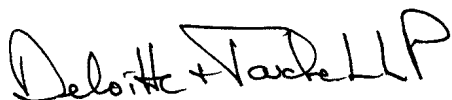
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02 through 2012-19 to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of and for the year ended September 30, 2012, and have issued our report thereon dated November 14, 2013, which contained an unqualified opinion on those financial statements and which report included a reference to other auditors and an explanatory paragraph concerning restatements for the correction of misstatements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Republic's financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 6 through 8) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Honorable Members of the Olbiil Era Kelulau, others within the entity, and the cognizant audit and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a cursive-like font.

November 14, 2013

# REPUBLIC OF PALAU

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2012

Grantor/ProgramTitle	Federal CFDA Number	Expenditures
<b>U.S. Department of Agriculture:</b>		
State Administrative Expenses for Child Nutrition	10.560	\$ -
Cooperative Forestry Assistance	10.664	135,228
Community Facilities Loans and Grants	10.766	182,091
<b>Total U.S. Department of Agriculture</b>		317,319
<b>U.S. Department of Commerce:</b>		
Pacific Fisheries Data Program	11.437	-
Unallied Management Projects	11.454	-
Special Oceanic and Atmospheric Projects	11.460	281,774
NOAA Donation to IRC Meeting	11.UNKNOWN	-
<b>Total U.S. Department of Commerce</b>		281,774
<b>U.S. Department of Housing and Urban Development:</b>		
Emergency Shelter Grants Program	14.231	-
<b>Total U.S. Department of Housing and Urban Development</b>		-
<b>U.S. Department of Justice:</b>		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	-
State Justice Statistics Program for Statistical Analysis Centers	16.550	-
<b>Total U.S. Department of Justice</b>		-
<b>U. S. Department of Labor:</b>		
WIA Adult Program	17.258	85,802
WIA Youth Activities	17.259	74,060
WIA Dislocated Workers	17.260	138,642
ARRA WIA Dislocated Workers	17.260	-
<b>Total U.S. Department of Labor</b>		298,504
<b>U.S. Environmental Protection Agency:</b>		
Construction Grants for Wastewater Treatment Works	66.418	-
Environmental Education Grants	66.951	-
<b>Total U.S. Environmental Protection Agency</b>		-
<b>U.S. Department of Energy:</b>		
State Energy Program	81.041	-
<b>Total U.S. Department of Energy</b>		-
<b>U.S. Department of Homeland Security:</b>		
Public Assistance Grants	83.544	-
<b>Total U.S. Department of Homeland Security</b>		-
<b>U.S. Department of Education:</b>		
Adult Education - Basic Grants to States	84.002	32,291
Special Education - Grants to States	84.027	1,118,988
Career and Technical Education - Basic Grants to States	84.048	249,584
Special Education - Preschool Grants	84.173A	-
Byrd Honors Scholarships	84.185A	-
Supported Employment Services for Individuals with Significant Disabilities	84.187A	-
Bilingual Education Support Services	84.194Q	-
Freely Associated States - Education Grant Program	84.256A	939,164
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	-
Twenty-First Century Community Learning Centers	84.287B	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	88,560
Vocational Education - Occupational and Employment Information State Grants	84.346A	-
College Access Challenge	84.378A	1,694,242
<b>Total U.S. Department of Education</b>		4,122,829

See accompanying notes to schedule of expenditures of federal awards.

# REPUBLIC OF PALAU

## Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2012

Grantor/Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Health and Human Services:</b>		
Civil Rights and Privacy Rule Compliance Activities	93.001	5,373
Public Health Emergency Preparedness	93.069	249,865
Hospital Preparedness Program (HPP)	93.074	128,215
Maternal and Child Health Federal Consolidated Programs	93.110AR	165,977
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	133,972
Family Planning - Services	93.217	124,897
Consolidated Health Centers	93.224	775,732
Consolidated Knowledge Development and Application (KD&A) Program	93.230	-
State Capacity Building	93.240	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	79,288
Universal Newborn Hearing Screening	93.251	139,895
Immunization Grants	93.268	222,977
Drug Free Communities Support Program Grants	93.276	-
CDC and Prevention - Investigations & Technical Assistance	93.283	1,153,680
Capacity Building Assistance to Strengthen Public Health Infrastructure and Performance	93.507	257,516
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) and Emerging Infections Program	93.521	81,577
Coordinated Chronic Disease Prevention and Health Promotion Program	93.544	43,185
ARRA Health Center Integrated Services Development Initiative	93.703	382,548
ARRA-Immunization	93.712	66,088
ARRA DP09-902 ROP MOH	93.723	22,683
National Bioterrorism Hospital Preparedness Program	93.889	19,613
HIV Care Grants	93.917	47,472
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	80,799
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	211,840
HIV/AIDS Surveillance	93.944	23,452
Block Grants for Community Mental Health Services	93.958	45,951
Block Grants for Prevention and Treatment of Substance Abuse	93.959	121,078
Preventive Health Services - STD Control Grants	93.977	25,624
Preventive Health and Health Services Block Grant	93.991	-
Maternal and Child Health Services Block Grant to the States	93.994	195,216
<b>Total Department of Health and Human Services</b>		<b>4,804,513</b>
<b>Total U.S. Federal Grants Fund (Fund 350100)</b>		<b>\$ 9,824,939</b>
<b>U.S. Department of the Interior:</b>		
Social, Economic and Political Development of the Territories	15.875	\$ 681,134
<b>Total U.S. Department of the Interior</b>		<b>681,134</b>
<b>Total OTIA Direct Grants Fund (Fund 350200)</b>		<b>\$ 681,134</b>
<b>U.S. Department of Homeland Security:</b>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ -
<b>Total U.S. Department of Homeland Security</b>		<b>-</b>
<b>U.S. Department of Housing and Urban Development:</b>		
Emergency Shelter Grants Program	14.231	-
<b>Total U.S. Department of Housing and Urban Development</b>		<b>-</b>
<b>U.S. Environmental Protection Agency:</b>		
Construction Grants for Wastewater Treatment Works	66.418	-
<b>Total U.S. Environmental Protection Agency</b>		<b>-</b>
<b>U.S. Department of Transportation:</b>		
Airport Improvement Program	20.106	4,402,753
<b>Total U.S. Department of Transportation</b>		<b>4,402,753</b>
<b>Total Non-DOI Capital Projects Fund (Fund 420100)</b>		<b>\$ 4,402,753</b>

See accompanying notes to schedule of expenditures of federal awards.

# REPUBLIC OF PALAU

## Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2012

	<u>Authorizations</u>	<u>Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>Compact of Free Association CFDA #15.875</u>			
<u>211(a) &amp; 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000	\$ -
Compact Section 215	5,147,000	5,128,231	18,769
Total 211(a) & 215 Current Account	<u>\$ 11,147,000</u>	<u>\$ 11,128,231</u>	<u>\$ 18,769</u>
<u>211(f) Trust Fund</u>			
Executive Branch	\$ 3,000,000	\$ 3,000,000	\$ -
Judiciary	1,000,000	1,000,000	-
Legislative	1,000,000	1,000,000	-
Total 211(f) Trust Fund	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>
<u>221(b)(1) &amp; (2) Special Block Grant &amp; Education Special Grant</u>			
Ministry of Education	\$ 2,000,000	\$ 2,000,000	\$ -
Total 221(b) Special Block Grant	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ -</u>
 Total Compact of Free Association CFDA #15.875		\$ 18,128,231	
Less Compact Section 211(a) Current Account		(6,000,000)	
Less Compact Section 215 Current Account		(5,128,231)	
Less Compact Section 211(f) Trust Fund Investment Earnings		<u>(5,000,000)</u>	
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		<u>\$ 2,000,000</u>	

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.



## REPUBLIC OF PALAU

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2012

#### (1) Scope of Audit

The Republic of Palau (the "Republic") is a governmental entity governed by its own Constitution. All significant operations of the Republic are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Republic's cognizant agency for the Single Audit.

##### a. Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Housing and Urban Development
- U.S. Department of Justice
- U.S. Department of Labor
- U.S. Environmental Protection Agency
- U.S. Department of Energy
- U.S. Department of Homeland Security
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. Department of Transportation

#### (2) Summary of Significant Accounting Policies

##### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Republic and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, the Republic's reporting entity is defined in Note 1A to its September 30, 2012 basic financial statements; except that the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2012.

##### c. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

## REPUBLIC OF PALAU

### Notes to Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2012

#### (2) Summary of Significant Accounting Policies, Continued

##### e. Indirect Cost Allocation

The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2012. The approved rate was 6.63%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

##### f. CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the U.S. Department of the Interior, Office of the Inspector General (OIG) has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding has been excluded from the dollar threshold used to distinguish between Type A and Type B programs. The requirement to exclude such funding was recommended by the OIG. The OIG took this position since there was no compliance requirement imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There is no compliance requirement associated with the use of this funding and therefore, such has been excluded from the dollar threshold used to distinguish between Type A and Type B programs, but such funding has been subject to Single Audit tests.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs Year Ended September 30, 2012

#### Section I - Summary of Auditors' Results

##### *Financial Statements*

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued:                      | Unqualified   |
|    | Internal control over financial reporting:            |               |
| 2. | Material weaknesses identified?                       | Yes           |
| 3. | Significant deficiencies identified?                  | None reported |
| 4. | Noncompliance material to financial statements noted? | Yes           |

##### *Federal Awards*

- |    |  |               |
|----|--|---------------|
|    | Internal control over major programs:  |               |
| 5. | Material weaknesses identified?  | Yes           |
| 6. | Significant deficiencies identified?   | None reported |
| 7. | Type of auditors' report issued on compliance for major programs:  | Qualified     |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes           |
| 9. | Identification of major programs:  |               |

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education - Grants to States
84.256	Freely Associated States - Education Grant Program
84.378	College Access Challenge
93.224	Consolidated Health Centers
93.283	CDC and Prevention-Investigations and Technical Assistance
15.875	Economic, Social, and Political Development of the Territories
20.106	Airport Improvement Program

- |     |  |            |
|-----|--|------------|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 507,265 |
| 11. | Auditee qualified as low-risk auditee?                                   | No         |

#### Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-01	Procurement	13
2012-05	Procurement	18
2012-08	Allowable Costs/Cost Principles	23 - 24
2012-09	Equipment and Real Property Management	25 - 30
2012-10	Procurement	31 - 32
2012-11	Allowable Costs/Cost Principles	33 - 34

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

### Section II - Financial Statement Findings, Continued

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-13	Procurement	37 - 38
2012-16	Allowable Costs/Cost Principles	43 - 45
2012-20	Single Audit Reporting	51
2012-21	Fixed Assets	52
2012-22	Procurement	53 - 54
2012-23	Revenues	55 - 57
2012-24	Expenditures	58
2012-25	Equipment and Real Property Management	59
2012-26	Procurement	60
2012-27	Procurement	61 - 63
2012-28	Social Security Retirement Fund	64
2012-29	Civil Service Pension Trust Fund	65

### Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2012-04	15.875	Period of Availability of Federal Funds	\$ 50,867	17
2012-05	15.875	Procurement and Suspension and Debarment	-	18
2012-06	15.875	Reporting	-	19
2012-09	15.875	Equipment and Real Property Management	-	25 - 30
2012-19	15.875	Special Tests and Provisions	-	50
2012-07	20.106	Cash Management	117	20 - 22
2012-09	20.106	Equipment and Real Property Management	-	25 - 30
2012-08	84.027	Allowable Costs/Cost Principles	-	23 - 24
2012-09	84.027	Equipment and Real Property Management	-	25 - 30
2012-07	84.256	Cash Management	-	20 - 22
2012-09	84.256	Equipment and Real Property Management	-	25 - 30
2012-10	84.256	Procurement and Suspension and Debarment	94,013	31 - 32
2012-02	84.378	Eligibility	-	14
2012-03	84.378	Reporting	-	15 - 16
2012-07	84.378	Cash Management	-	20 - 22
2012-09	93.224	Equipment and Real Property Management	-	25 - 30
2012-11	93.224	Allowable Costs/Cost Principles	-	33 - 34
2012-12	93.224	Period of Availability of Federal Funds	39,279	35 - 36
2012-13	93.224	Procurement and Suspension and Debarment	25,706	37 - 38
2012-14	93.224	Program Income	-	39
2012-15	93.224	Reporting	-	40 - 42
2012-09	93.283	Equipment and Real Property Management	-	25 - 30
2012-16	93.283	Allowable Costs/Cost Principles	22,884	43 - 45
2012-17	93.283	Period of Availability of Federal Funds	13,625	46 - 48
2012-18	93.283	Matching, Level of Effort, Earmarking	20,000	49
2012-01	93.703	Procurement and Suspension and Debarment	496,857	13
			<u>\$ 763,348</u>	

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-01

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.703 CHC ARRA - Capital Improvement Program  
Grant Number: C81CS14006  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$496,857

Criteria: Section 1605 of the American Recovery and Reinvestment Act of 2009 (ARRA) prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. ARRA provides for the waiver of these requirements under specified circumstances.

Condition: Of twelve fixed asset additions tested totaling \$12,302,102, one \$496,857 contract (# C10006) was to build a new Community Health Center. There was no evidence that the Community Health Center was constructed using iron, steel, and manufactured goods produced in the United States. Furthermore, change order no. 2 for the purchase of medical supplies and equipment totaling \$50,196 was included in the total cost of the building; and there was no evidence on file that the medical supplies and equipment were manufactured or produced in the United States. No waiver of this requirement was provided to us.

Cause: The cause of the above condition is that a waiver of the requirement was not obtained.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$496,857.

Recommendation: We recommend that the Republic establish procedures to assess the feasibility of using iron, steel, and manufactured goods produced in the United States and to obtain necessary waivers in accordance with applicable procurement requirements.

Auditee Response and Corrective Action Plan: ROP concurs with reservation. The program went through the procurement process and requirements were met to build a new Community Health Center and the purchase of medical supplies and equipment. Unfortunately, it was beyond our scope to identify whether these contractors/vendors that can provide such services will provide supplies and equipment that are produced in the United States. In that case, we should get to the bottom of it and ask the contractors/vendors to identify their products if it is produced in the United States. In the latter case, MOF will work with the program to ensure that waiver is obtained before constructing a building or purchase any materials, equipment and supplies under the ARRA Funds.

Full name of the person responsible for the corrective action plan:

Darnelle W. Decherong, Program Coordinator, CHC  
Gandhi Ngirmidol, Grants Manager, MOF  
Caryn L. Koshiba, Chief Finance & Accounting

Date the corrective action plan will be implemented: On-going

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-02

Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge  
Grant Number: P378A110057  
Requirement: Eligibility  
Questioned Costs: \$0

Criteria: Title VII, Part E, Section 781(g)(2) of the Higher Education Act of 1965 requires prioritization of students and families who live below the poverty line applicable to the individual's family size.

Condition: The College Access Challenge program is made available to qualified students regardless of income level or student financial need. No evidence of waiver of this eligibility requirement by the Grantor Agency was made available.

Cause: The cause of the above condition is a lack of controls over eligibility requirements. It was represented that qualified students are all provided an opportunity to participate in program activities and services as program funding is sufficient to provide for all qualified applicants.

Effect: The effect of the above condition is noncompliance with the above criteria.

Recommendation: We recommend that the Program adequately document that only eligible applicants receive financial assistance.

Auditee Response and Corrective Action Plan: The Program concurs with this finding. The scholarships do have eligibility requirements, such as citizenship, full-time enrollment, certified financial aid statement, etc.; some applicants are therefore disqualified as being ineligible if they do not meet the eligibility requirements. The scholarship expenditures are based on certified financial statements from colleges where students attend. Such statements include cost of attending the college and how much financial assistance the student receives from other sources. Such information forms the basis for the determination of the amount of the scholarship that the student receives.

Having said this, we can still review eligibility requirements, but we really do not want to leave any Palauan student behind without CACG financial support and certainly do not want to deviate from the overall purpose of the grant (and the scholarships), which is to help all Palauan students succeed in college.

With that, the program will work closely with the grantor and the Attorney General's office on how to improve the criteria in order to be able to help all Palauan students in need of scholarships to help with their education expense.

Full name of the person responsible for the corrective action plan:

Emery Wenty, Director Ministry of Education  
Noe Yalap, Program Specialist  
Edwel Ongerung, Administration Service Manager

Date the corrective action plan will be implemented: January 2014

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-03

Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge  
Grant Number: P378A110057  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: Title VII, Part E, Section 781(h)(2) of the Higher Education Act of 1965 requires that a grantee receiving a payment shall prepare and submit an annual report to the Secretary on the activities and services carried out under this section, and on the implementation of such activities and services. The report shall include the cost of providing each activity or service.

Condition: Of two annual performance reports tested, we noted the following:

1. Federally funded costs of activities and services on a 5/14/13 report are overstated by \$46,380 when compared against underlying accounting or performance records as follows:

	<u>Actual Expenditures</u>
10/1/11 - 9/30/12	\$ 1,264,832
10/1/12 - 4/15/13	<u>118,502</u>
Total per general ledger	1,383,334
Total per annual performance report	<u>1,429,714</u>
Overstatement	\$ <u>(46,380)</u>

2. The reported local match for scholarship grant aid is understated by \$499,031 and \$516,952 when compared against underlying accounting records for reports submitted on 05/08/12 and 5/14/13, respectively as follows:

	<u>FY 2011</u>	<u>FY 2012</u>	<u>Total</u>
Per annual performance report	\$ 600,000	\$ 600,000	\$ 1,200,000
Per general ledger	<u>1,099,031</u>	<u>1,116,952</u>	<u>2,215,983</u>
Understatement	\$ <u>(499,031)</u>	\$ <u>(516,952)</u>	\$ <u>(1,015,983)</u>

3. Local match expenditures of \$83,500 and \$37,500 are not detailed or supported by invoices or other authoritative documentation per performance reports submitted on 05/08/12 and 5/14/13, respectively.

Cause: The cause of the above condition is a lack of internal control over adequate file maintenance of underlying accounting records and documents to support reported program expenditures.

Effect: The effect of the above condition is noncompliance with the above criteria. No questioned costs result as only recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that the Program establish internal control procedures over adequate file maintenance so that underlying records exist to support reported program expenditures.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-03, Continued

Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge  
Grant Number: P378A110057  
Requirement: Reporting  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: The program concurs with reservation. Item 1: The dollar figures in our APRs are based on our records at the time the APRs were prepared, which would be in early May. Our records do not necessarily match those of the Ministry of Finance. We would have requisitions recorded in our system, yet these same requisitions may have not been entered at the Ministry of Finance; hence, there would be differences in total expenditures and remaining balance(s). Also, open purchase orders may be closed and the remaining balances of the purchase orders returned to the appropriate accounts at the Ministry of Finance. This could explain the overstated costs as cited above.

Item 2: The total amount of local scholarships is \$1.2 million for one fiscal year: \$600,000 for Fall Semester and \$600,000 for Spring Semester. Because of the differences between the fiscal year, which is from October to September, and the school year, which is from August to December for Fall Semester and January to May for Spring Semester, the first batch of scholarships are awarded in January for Spring Semester while the second batch of scholarships are awarded in August for Fall Semester. When the APRs are prepared, only local scholarships for Spring Semester have been awarded; the Fall Semester scholarships are yet to be awarded – in August. From time to time, the Scholarship Office uses a portion of the \$600,000 scholarship allocation for administrative purpose, knowing that it has another \$600,000 available for more scholarships; and this is what happened to result in the understated local scholarship match. However, the scholarships awarded in August should be more than enough to provide the needed matching for scholarships.

Item 3: All local expenditures for the ministry are well documented with quotations, requisitions, purchase orders, and invoices as requirements for government expenditures. Nevertheless, our grant program may indeed not have an adequate file maintenance process as it would take a long time for us to assemble all the documentation for all matching expenditures. The grant program will therefore establish a file maintenance system to ensure records for matching expenditures as well as other program expenditures are adequately maintained and can be quickly retrieved.

Full name of the person responsible for the corrective action plan:

Emery Wenty, Director Ministry of Education  
Noe Yalap, Program Specialist  
Edwel Ongerung, Administration Service Manager

Date the corrective action plan will be implemented: January 2014



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-04

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: TA-ROP-Airport-2010-4; MOU 2010  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$50,867

Criteria: Expenditures should be obligated and liquidated within the grant period as stated in the grant terms and conditions.

Condition: Of twenty-two non-payroll samples tested, totaling \$602,772 of a population of \$658,377, two expenditures (or 9%) were incurred after the grant period, and an approved grant extension was not evident.

<u>Check No.</u>	<u>Trans Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Grant Period End</u>	<u>Amount</u>
330267	08/16/2012	881603	R03872	07/31/2012	\$ 30,867
332600	09/29/2012	886734	F03844	07/01/2012	\$ 20,000

Cause: The cause of the above condition is inadequate monitoring of existing procedures to obligate and liquidate grant funds within the grant period.

Effect: The effect of the above condition is noncompliance with grant period of availability requirements and questioned costs of \$50,867.

Recommendation: We recommend that the Republic strengthen procedures to obligate and liquidate grant funds within the grant period.

Prior Year Status: Noncompliance with period of availability requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2009 and 2010 as items 2009-32 and 2010-13.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. For voucher 881603, the expiration date of the grant was July 31, 2012. The voucher was paid within the liquidation period. For voucher 886734, ROP communicated with the Grantor Agency by submitting the required reports. The Grantor Agency confirmed that the reports were received and went ahead with payment of the drawdown request.

Full name of the person responsible for the corrective action plan:  
Ghandi Ngirmidol, Grants Manager

Date the corrective action plan will be implemented: On-going

Auditor Response: For voucher 881603, the expenditures were obligated on 8/16/12 while the grant period ended on 7/31/12. For voucher 886734, the expenditures were liquidated on 10/15/12 while the grant period ended on 9/30/12.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-05

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: TA-ROP-OBGO-2010-5, TA-ROP-OPA-2010-2  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Criteria: Procurements shall provide full and open competition among vendors.

Condition: Of twenty-two non-payroll expenditures tested, totaling \$602,772, of a total population of \$658,377, three transactions (or 14%) were not processed through established procurement procedures. The procurement file does not evidence competition. Furthermore, there was no evidence on file that the grantor approved non-competitive procurement procedures.

<u>Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Amount</u>
01/10/2012	857045	P03824	\$ 3,750
05/01/2012	870750	P03824	3,750
07/02/2012	876849	P03824	<u>3,750</u>
		Total	\$ <u>11,250</u>

Cause: The cause of the above condition is the Republic's failure to comply with applicable procurement requirements and absence of competitive procurement procedures for items less than \$10,000.

Effect: The effect of the above condition is noncompliance with procurement requirements. No questioned costs result as there was no drawdown made for these expenditures.

Recommendation: We recommend that the Republic implement procedures requiring compliance with procurement requirements.

Prior Year Status: Noncompliance with established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2005 and 2008 through 2010 as items 2005-17, 2008-12, 2009-38 and 2010-24.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. These expenditures represent payment for services by a special advisor to the President of the Republic of Palau. In addition, Pursuant to Section 6, Public Law no. 7-8-8, and RPPL 1-37, Special Advisors are exempt from the National Public Service System. In this case, the regular procurement process or competition does not apply; however, we recognized that the process was not followed by not obtaining the grantor approval and we will take this into consideration when procuring services.

Full name of the person responsible for the corrective action plan:  
Gandhi Ngirmidol, Grants Manager

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-06

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: TA-ROP-Border Management Systems-2010-7  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: In accordance with grant terms and conditions, the Program is required to semi-annually submit an SF-425 Federal Financial Report.

Condition: Of seven awards tested, the SF-425 was not provided for the following project:

<u>Cost Center</u>	<u>Grant Number</u>	<u>Grant Expiration</u>	<u>Expenditures Incurred during the Fiscal Year</u>
J03881	TA-ROP-Border Management Systems -2010-7	2/28/2013	\$14,989

Cause: The cause of the above condition is lack of controls over compliance with reporting requirements.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs result because no excess federal funds were drawn as a result of this condition.

Recommendation: We recommend that applicable SF-425 reports be on file.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Reports have been brought up to date for FY 2013.

Full name of the person responsible for the corrective action plan:  
Gandhi Ngirmidol, Grants Manager

Date the corrective action plan will be implemented: On-going

# **REPUBLIC OF PALAU**

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

### Finding No.: 2012-07

CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
 CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
 CFDA Program: U.S. ED 84.378 College Access Challenge  
 Grant Number: NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
 S256A090006-10  
 P378A110057  
 Requirement: Cash Management  
 Questioned Costs: \$117

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the payout of funds for program costs should be minimized.

Condition: The Republic has Federal awards funded on a reimbursement payment basis. Program costs are paid from local funds before reimbursement is requested from the Federal government; however, we noted that upon each request for reimbursement from the Federal government, there remains some program costs unpaid that will be paid upon receipt of the requested reimbursement. Procedures in place do not minimize the time elapsed between the receipt of Federal funds and the payout of funds for program costs.

- For 11 (or 58%) of 19 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 5 to 7 days as follows:

<u>Grant Award No.</u>	<u>Cost Center no.</u>	<u>APV no.</u>	<u>Check no.</u>	<u>Check Clearing Date</u>	<u>Amount</u>	<u>Days Lapsed</u>
NAT- I-4416-1-1-14	T0APR1	851875	321764	2/14/2012	\$ 327,024	5
NAT- I-4416-1-1-14	T0APR1	855449	321755	2/14/2012	\$ 224,799	5
NAT- I-4416-1-1-14	T0APR1	860344	321554	2/14/2012	\$ 294,936	5
NAT- I-4416-1-1-14	T0APR1	863901	326006	05/09/2012	\$ 276,718	7
NAT- I-4416-1-1-14	T0APR1	868868	326006	05/09/2012	\$ 242,275	7
NAT- I-4416-1-1-14	T0APR1	871311	327455	06/19/2012	\$ 268,919	5
NAT- I-4416-1-1-14	T0APR1	878442	333500	10/30/2012	\$ 296,569	5
NAT- I-4416-1-1-14	T0APR1	881588	333500	10/30/2012	\$ 546,562	5
NAT- I-4416-1-1-15	T0APR1	873102	327455	06/19/2012	\$ 689,561	5
NAT- I-4416-1-1-15	T0APR1	874987	327455	06/19/2012	\$ 314,620	5
NAT- I-4416-1-1-15	T0APR1	883715	333500	10/30/2012	\$ 308,733	6

- The reimbursement included unpaid program costs of which two accounts payable vouchers had not been paid as of July 2013, as follows:

<u>Grant award no.</u>	<u>Cost Center no.</u>	<u>APV nos.</u>	<u>Amount</u>	<u>Days Lapsed to 9/30/12</u>
S256A090006-10	E03595	840095	\$ 660	45
P378A110057	E13597	871168	\$ 1,311	45

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-07, Continued

CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. ED 84.378 College Access Challenge  
Grant Number: NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
S256A090006-10  
P378A110057  
Requirement: Cash Management  
Questioned Costs: \$117

#### Condition, Continued:

3. Four accounts payable vouchers were paid from five to forty-four days after the receipt of Federal funds as follows:

<u>Grant Award No.</u>	<u>Cost Center no.</u>	<u>APV no.</u>	<u>Check no.</u>	<u>Check Clearing Date</u>	<u>Amount</u>	<u>Days Lapsed</u>
S256A090006-10	E03595	880970	332113	10/02/12	\$ 386	44
S256A090006-10	E03595	881305	330262	08/24/12	\$ 390	5
P378A110057	E13597	881303	330361	08/28/12	\$ 585	9
P378A110057	E13597	881304	330361	08/28/12	\$ 204	9

Cause: The Republic represents that there are instances where accounts payable vouchers (APV) do not have complete supporting documents and are sent back to Accounts Payable section for completion of supporting documents prior to payments. That process further delays the timing of payments.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. Questioned costs of \$117 exist for CFDA # 20.106 as the resulting estimated interest liability exceeds the \$10,000 threshold. No questioned costs exist for CFDA # 84.256 and CFDA # 84.378 as the resulting estimated interest liability is less than the \$10,000 threshold.

Recommendation: We recommend that the Republic establish internal controls over cash management that confirms compliance with federal requirements. We further recommend that this matter be discussed with the applicable grantor officials and the Republic to perform a requisite analysis of its clearance patterns.

Prior Year Status: Lack of internal control over cash management was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2010 as items 2005-40, 2006-15, 2007-16, 2008-08, 2009-25 and 2010-23.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Currently, MOF is working with the program managers to take corrective action to resolve this finding by encouraging them to provide invoices to MOF as soon as they receive them as well as encouraging the vendors to deposit/cash their checks immediately to be cleared.

In addition, MOF team is currently working on revising the Cash Management Policy which will include the clearance pattern analysis that should be effective in December of 2013.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-07, Continued

CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. ED 84.378 College Access Challenge  
Grant Number: NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
S256A090006-10  
P378A110057  
Requirement: Cash Management  
Questioned Costs: \$117

#### Full name of the person responsible for the corrective action plan:

Ruth Wong, MOF-Director/Controller,  
Caryn L. Koshiba, Chief of Finance & Accounting, and  
Gandhi Ngirmidol, Grants Manager/Senior Accountant

Date the corrective action plan will be implemented: December 2013

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-08

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A100006A  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: In accordance with applicable allowable costs/cost principles requirements, if an employee is expected to work solely on a Federal program, the employee and/or supervisory official having first-hand knowledge of the work performed by the employee is required to prepare, at least semi-annually, a certification that the employee worked solely on that program for the period covered by the certification.

Condition: Tests of semi-annual certifications noted deficiencies as follows:

1. The semi-annual certifications for two employees (Check #s 1406080 and 1415760) were unavailable.
2. The semi-annual certifications for the period 4/1/12 to 9/30/12 for two employees (Check #s 1439824 and 1442201) were not certified by the employees' immediate supervisor.
3. The semi-annual certification for the period 4/1/12 to 9/30/12 for one employee (Check # 1401207) was signed by the employee and was certified on 5/6/12, which appears to indicate that the certification was prepared prior to the end of the specified period.

Cause: The cause of the above condition is the lack of controls over the timely completion and submission of employee certifications.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements. No questioned costs result due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the Republic require certifications from employees on a semiannual basis evidencing that employees are certifying time charged for federal related activities only.

Auditee Response and Corrective Action Plan: The Program concurs with reservation. We are very aware of this and we keep our employees certifications on file. Although eleven staff was reported as incomplete out of all Special Education staff, we were able to locate and file them except for two employees due to resignation and illness.

All employees of the program have a good understanding of this requirement, and they are aware that their reports must be submitted to the main office. However, challenges arise from the program employees stationed outside of Koror when submitting their reports to the main office that may cause delays for report submission.

The program coordinator and her staff will make an effort to monitor and ensure that all reports will be submitted on a timely manner. In addition, MOF will ensure that the program make certain that the employees time certifications are up to date and filed.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-08, Continued

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A100006A  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$0

#### Full name of the person responsible for the corrective action plan:

Helen Sengebau, Coordinator Special Education Program  
Caryn L. Koshiba, Chief, Division of Finance & Accounting  
Gandhi Ngirmidol, Grants Manager/Senior Accountant

Date the corrective action plan will be implemented: Ongoing



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-09

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. ED 84.027 Special Education - Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. DHHS 93.224 Community Health Centers Program  
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: MOU-2008, MOU-2009  
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
H027A100006A  
S256A090006, S256A090006-10, S256A090006-11  
6H80CS02467-26-03, 5H80CS02467-27-00  
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01  
Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: Procedures for managing equipment, whether acquired in whole or in part with grant funds, should meet the following requirements:

1. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two year.
2. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who hold title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of property, and any ultimate disposition data including the date of disposal and sale price of the property.
3. Adequate maintenance procedures must be developed to keep property in good condition.

Condition: For all major federal programs the following were noted:

1. The latest biennial inventory was conducted in July 2009, therefore the next inventory should have been conducted in fiscal year 2011; however it was represented that there was no inventory performed in fiscal year 2011. A scheduled biennial inventory in 2013 was ongoing as of July 2013.
2. There was no evidence that equipment was maintained in good condition.

Specifically, the following were noted:

#### CFDA # 15.875

Of twenty-four fixed assets listed as program equipment, totaling \$440,995, acquired between 2003 and 2012, fourteen items, totaling \$387,170, were selected for verification. Related software costs were not included in the fixed asset listing provided for the following information systems:

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. DOE 84.027 Special Education - Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. DHHS 93.224 Community Health Centers Program  
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: MOU-2008, MOU-2009  
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
H027A100006A  
S256A090006, S256A090006-10, S256A090006-11  
6H80CS02467-26-03, 5H80CS02467-27-00  
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01  
Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Condition, Continued:

#### CFDA # 15.875, Continued

Cost Center	Cumulative Expenditures	System
H63863/H83863	\$ 807,334	Hospital Collection and Billing System (Phase I & II)
E73877	235,372	Computer Maintenance and Management System
E73877	30,972	Networked Computer System
Total	\$ <u>1,073,678</u>	

#### CFDA # 20.106

Of four listed program assets totaling \$1,391,359, the following were noted:

1. One item (TAG# LP 1165) had a purchase cost that differed from underlying property records, and there was no evidence of a reconciliation for the following:

<u>Listed cost.</u>	<u>Correct cost</u>	<u>Variance</u>
\$150,400	\$376,000	\$225,600

2. Existing property records do not include infrastructure assets totaling \$40,364,309.

#### CFDA # 84.027

Of twenty-two fixed assets listed as program equipment, totaling \$336,119, acquired between 1996 and 2012, ten items, totaling \$271,500, were selected for verification. Three assets (Tag #s RP-2827, RP-3329, RP-3588) were not operable as of September 30, 2012, but are recorded in the fixed asset records. There was no official survey report to disclose that the assets were not operable.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. DOE 84.027 Special Education - Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. DHHS 93.224 Community Health Centers Program  
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: MOU-2008, MOU-2009  
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
H027A100006A  
S256A090006, S256A090006-10, S256A090006-11  
6H80CS02467-26-03, 5H80CS02467-27-00  
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01  
Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Condition, Continued:

#### CFDA # 93.224

Of fifteen fixed assets listed as program equipment totaling \$200,315 acquired between 2001 and 2011, eleven items, totaling \$143,887 were selected for verification and the following noted:

1. We could not verify the existence of an asset as program personnel represented that they did not know the location. Additionally, it was represented by the Property and Supply Office that they were unaware that the asset was surveyed as no official report of survey to dispose of the asset.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-2688	02/06/2001	Pick-up, LP# 787, Chassis No.	\$ 6,900

2. We could not verify the existence of an asset as it was represented the asset was inoperable; therefore, it was moved to a storeroom. However, the asset was accidentally disposed of. There was no official survey report to acknowledge the disposal.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-3326	01/10/2003	Copier, Digital, Canon	\$7,517

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. DOE 84.027 Special Education - Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. DHHS 93.224 Community Health Centers Program  
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: MOU-2008, MOU-2009  
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
H027A100006A  
S256A090006, S256A090006-10, S256A090006-11  
6H80CS02467-26-03, 5H80CS02467-27-00  
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01  
Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Condition, Continued:

##### CFDA # 93.283

Of fifteen fixed assets listed as program equipment, totaling \$329,746, which were acquired between 2004 and 2012, ten items, totaling \$296,857, were tested for verification. We could not verify the existence of one asset. We were informed that the asset was not operable and was surveyed in a prior year. Property and Supply Office staff represented that they were not aware that the asset was surveyed. An official survey report was not filed to support the disposal.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-3492	12/15/2004	Mammography Processor, AGFA	\$25,250

#### Cause: For all major federal programs:

1. It was represented that there was an inventory task force committee assigned by the President to conduct an inventory during 2011; however, the results of the inventory counts were not reconciled to property records.
2. There is a lack of a developed control system at the program level over the maintenance of property and equipment.

##### CFDA # 20.106

No responsibility for maintaining complete records of property acquired under the Airport Improvement Program has been assigned.

##### CFDA # 93.224

There is no mechanism in place to capture all categories of program assets and to determine that all assets are operable and in use.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. DOE 84.027 Special Education - Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. DHHS 93.224 Community Health Centers Program  
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: MOU-2008, MOU-2009  
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
H027A100006A  
S256A090006, S256A090006-10, S256A090006-11  
6H80CS02467-26-03, 5H80CS02467-27-00  
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01  
Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Cause, Continued:

#### CFDA # 93.283

There is no mechanism in place to determine that Program assets are operable.

Effect: The effect of the above condition is noncompliance with federal equipment management requirements. No questioned costs result as the fixed assets that are specifically identified above have reached their estimated useful lives and are considered inoperable.

Recommendation: We recommend that the Republic strengthen control procedures to facilitate compliance with federal equipment management requirements.

Prior Year Status: Weakness in controls over fixed assets was reported as findings in the Single Audits of the Republic for fiscal years 1988 through 2011.

Auditee Response and Corrective Action Plan: ROP concurs with the finding. MOF are working closely with MOH and MOE to gather all relevant information to be able to capitalize the assets.

#### CFDA # 93.224

1. ROP concurs with the finding. This fixed asset is obsolete and is beyond its useful life and it is no longer operable. Therefore, MOF and MOH will go through the process of surveying it out of the fixed asset listing.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
CFDA Program: U.S. DOE 84.027 Special Education - Grants to States  
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant  
CFDA Program: U.S. DHHS 93.224 Community Health Centers Program  
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: MOU-2008, MOU-2009  
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15  
H027A100006A  
S256A090006, S256A090006-10, S256A090006-11  
6H80CS02467-26-03, 5H80CS02467-27-00  
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01  
Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan, Continued:

##### CFDA # 93.224, Continued

2. ROP concurs with the finding. This equipment was determined inoperable. Therefore, the Program will be filing an incident report for file and will work with MOF to survey it out on the fixed asset listing.

In addition, Chief of Property and Supply Div. will ensure that appropriate survey action is taken to ensure Survey Board have the opportunity to review both cases and take appropriate action to address them. Hence, MOF will work closely and cohesively with the Survey Board to update the fixed asset listing.

##### Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Executive Director, CHC  
Millan Isack, Chief, Property & Supply  
Ruth Wong, Director-BNT  
Caryn L. Koshiba, Chief Finance & Accounting

Date the corrective action plan will be implemented: January 2014

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-10

Federal Agency: U.S. Department of Education  
CFDA Program: 84.256 Territories and Freely Associated States Education Grant  
Grant Number: S256A090006, S256A090006-10, S256A090006-11  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$94,013

Criteria: Procurement shall provide full and open competition among vendors. Allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the procurement officer concerned or his or her designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required for small purchases under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

Condition: Of thirty-six non-payroll expenditures tested totaling \$468,930, of a population of \$860,613, we noted the following:

1. Two disbursements (or 6%) did not go through the procurement process as it was represented that the grant has specific staff development objectives and activities involving the vendor, and the vendor is the only post-secondary institution in the Republic that could provide the service. The procurement file does not contain evidence of any competition, which would have been practicable under the circumstances. Furthermore, there was no evidence on file that the grantor approved the suspension of procurement requirements.

<u>Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Amount</u>
06/25/2012	876227	13595	\$ 47,116
09/20/2012	885038	13595	42,827
		Total	<u>\$ 89,943</u>

2. There was no evidence on file that quotations were obtained from an adequate number of qualified sources for the following.

<u>Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Amount</u>
07/30/2012	879925	13595	4,070

Cause: The cause of the above condition is failure to comply with applicable procurement requirements and the absence of competitive procurement for items less than \$10,000.

Effect: The effect of the above condition is noncompliance with procurement requirements and questioned costs of \$94,013.

Recommendation: We recommend that the Republic comply with procurement requirements.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-10, Continued

Federal Agency: U.S. Department of Education  
CFDA Program: 84.256 Territories and Freely Associated States Education Grant  
Grant Number: S256A090006, S256A090006-10, S256A090006-11  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$94,013

Prior Year Status: Noncompliance with established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2005, 2008 and 2009 as items 2005-24, 2008-11 and 2009-36.

Auditee Response and Corrective Action Plan: Item 1: ROP concurs with this finding. MOF will work cohesively with MOE that this will never occur again and that the procurement process will be followed.

Item 2: ROP concurs with this finding. MOF will collaboratively work with the Programs to make sure that quotations from available vendors who can provide such service have been obtained to meet the requirement

Full name of the person responsible for the corrective action plan:

Gandhi Ngirmidol, Grants Manager  
Caryn L. Koshiba, Chief Finance & Accounting  
Millan Isack, Chief Procurement & Supply

Date the corrective action plan will be implemented: On-going



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-11

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 6H80CS02467-26-03, 5H80CS02467-27-00  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: In accordance with applicable allowable costs/cost principle requirements, the following apply:

- If an employee works less than 100% on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program served, unless an alternative method has been authorized by the funding agency.
- Where employees are expected to work solely on the program, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee and the supervisory official having firsthand knowledge of the work performed by the employee.

Condition: Of 33 employees tested, totaling \$17,359, of a total population of \$510,215, we noted the following:

- a. Not all personnel appear to work 100% on the Community Health Center Program. Salaries unrelated to the program could not be determined based on available evidence, and therefore, no questioned costs could be estimated. (Check #s 1439968, 1394061, 1418323, 1430384, 1391627 and 1396491).
- b. For 24 (or 73%), the employee charged 100% of his or her time to the program, but there was no evidence of semiannual certification.
- c. For 1 (or 3%), the employee appears to have charged 100% of his or her time to the program; however, per corroborative inquiry, the employee did not spend 100% of the time on the program. (check nos. 1394055, 1411048 and 1439953).

Cause: The cause of the above condition is lack of conformance with existing procedures that require adequate documentation be maintained to support program expenditures.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles. No questioned costs result because amounts not relating to program activities could not be determined.

Recommendation: We recommend that the Republic strengthen procedures over the maintenance of adequate documentation to support program expenditures.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-11, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 6H80CS02467-26-03, 5H80CS02467-27-00  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Prior Year Status: Noncompliance with allowable costs/cost principle requirements was reported as a finding in the Single Audits of the Republic for fiscal year 2010 as item 2010-12.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF will work closely with the Program to implement the time certification policies to ensure time certifications are completed and filed.

Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Executive Director, CHC; Regis Emesiochel, Comptroller, MOH; Gandhi Ngirmidol, Grants Manager, MOF; Caryn L. Koshiba, Chief Finance & Accounting, MOF

Date the corrective action plan will be implemented: November 1, 2013

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-12

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 6H80CS02467-26-03  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$39,279

Criteria: A grantee must liquidate all obligations incurred under the grant award no later than ninety days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Federal Financial Report (SF-425). The Federal agency may extend this deadline at the request of the grantee.

Condition: Period of availability of federal funds testing noted the following:

1. Expenditures of \$21,894 were charged to grant no. 6H80CS02467-26-03 (cost enter no. H13690) one to eight months after the grant period ended on December 31, 2011. There was no evidence that a grant extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to the new grant applicable to this period. Subsequent to test date, an adjustment was posted to move the expenditures from Cost Center no. H13690 to the General Fund Org. # 1540, and therefore, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no.</u>	<u>Acct. no.</u>	<u>Description</u>	<u>Amount</u>
H13690	1011	Salaries & Waged	\$ 19,085
H13690	1016	Living Quarters Allowance	125
H13690	1019	Social Security	1,146
H13690	1034	Civil Service Pension Plan	1,060
H13690	1080	Other Employment Benefits	478
			<u>\$ 21,894</u>

2. One Federal Financial Report (FFR) submitted was not finalized on the last day of liquidation (grant no. 6H80CS02467-26-03; cost enter no. H13690). It was represented that the final FFR will not be finalized until all obligations are liquidated; therefore, the submitted report was not final. However, there was no documentation from the grantor agency indicating approval, and expenditures were liquidated later than ninety days after the end of the funding period. Questioned costs of \$38,905 result.
3. Expenditures totaling \$374 were charged to grant no. 6H80CS2467-26-03 (cost enter no. H13690) one to six months after the budget period ended on December 31, 2011. There was no evidence that a grant extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to the new grant applicable to this period. Questioned costs of \$374 result.

Cause: The cause of the above condition is a lack of controls over period of availability compliance. There are no records on file evidencing grantor approval of a grant extension. There is no mechanism in place to freeze the accounts of expired grants.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-12, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 6H80CS02467-26-03  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$39,279

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$39,279.

Recommendation: We recommend that the Republic strengthen procedures to maintain adequate documentation on file to support program expenditures and implement control procedures so that the cost of local and/or other Federal grants are not charged to the grant after the period of availability expires.

Auditee Response and Corrective Action Plan: Items 1, 2, and 3: The Program concurs with reservations. Grant Terms and Conditions specifically states *"If the FFR is not finalized by the due date, an interim FFR must be submitted, marked "NOT FINAL," and an amount of un-liquidated obligations should be annotated to reflect unpaid expenses."* ROP assumed this implies liquidation beyond the 90 days liquidation period is allowable unless it is the end of the Project Period. MOF will clarify this issue with grantor agency. MOF will also work closely with Program to make sure grantor approval is obtained if the assumption above does not apply.

Full name of the person responsible for the corrective action plan:

Gandhi Ngirmidol, Grants Management Officer  
Caryn Koshiba, Chief, Division of Finance & Accounting  
Darnelle Decherong, Executive Director, CHC

Date the corrective action plan will be implemented: November 1, 2013

Auditor Response: Reporting requirement # 1 on page 7 of the abovementioned grant stipulates that the grantee must submit a Federal Financial Report (FFR) within 90 days after the budget period end date. This report should reflect cumulative reporting within the project period and must be submitted using the Electronic Handbook. Failure to comply with this reporting requirement will result in deferral or additional restrictions of future funding decisions.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-13

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 6H80CS02467-26-03, 6H80CS02467-26-02, 6H80CS02467-26-00  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$25,706

Criteria: It is the policy of the Republic that all procurement and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical, practical procurement. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file.

Purchases over \$10,000 require a formal bidding process. Public notice of the invitation for bid shall be announced on all radio or television stations and shall be made in a reasonable time at least fifteen days prior to the date of the initial day of the bidding time. Contracts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified. Procurement files should contain public notice, invitation for bids or request for proposal, notice of unsuccessful bidder or offeror, basis for cost or price and determination.

Condition: Of sixteen expenditures tested totaling \$63,421, there were two purchase orders issued under request for proposal (RFP) no. 17-11 for the purchase of pharmaceutical and medical supplies. It appears that the awards went to four vendors without documentation or comparative analysis to evidence the basis of selection and the basis for determining the award. Therefore, known questioned costs of \$25,706 results.

<u>Check no.</u>	<u>P O no.</u>	<u>PO Amount</u>	<u>FY 2012 Expenditures</u>	<u>Cost Center</u>	<u>Description</u>
332581	P20006	\$ 23,981	\$ 22,898	H13690	Pharmaceutical supplies
331453	G20037	\$ 83,400	2,808	H13690	Medical Supplies
Total			\$ <u>25,706</u>		

It appears there are additional potential questioned costs incurred per the RFP that similarly occurred during fiscal year 2012; however, the system is unable to capture all expenditures recorded pursuant to the request for proposal (RFP) no. 17-11.

Cause: The cause of the above condition is weaknesses in controls over compliance with applicable procurement requirements. In addition, there was no tracking system in place so that expenditures do not exceed awarded or purchase order amount.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-13, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 6H80CS02467-26-03, 6H80CS02467-26-02, 6H80CS02467-26-00  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$25,706

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$25,706.

Recommendation: We recommend that the Republic strengthen controls over procurement procedures to maximize competition while maintaining the best interest of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved, and the reasons should be documented in the procurement file.

Prior Year Status: Noncompliance with established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004, 2005, and 2007 through 2010 as items 2004-14, 2005-27, 2007-17, 2008-9, 2009-34 and 2010-16.

Auditee Response and Corrective Action Plan: ROP concurs with the finding. All medical supplies and drugs go through a proper bidding process. Prospective vendors are selected based on a series of factors including price, payment arrangement, flexibility, etc. It is also noted on the recommendation letter that the price does not constitute total obligation. This will allow for greater flexibility if unforeseen circumstances are faced by each vendor.

In addition, the Chief of Property and Supply Division is currently working with both MOH Procurement Officer and MOH Pharmacist (she is in-charge of MOH warehouse now) to develop a methodology for determining the awarded amount based on competitive analysis as well as other relevant factors. The Supply Office has also put in place a mechanism to capture all expenditures pursuant to each respective RFP.

Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Executive Director, CHC  
Tasya Worswick, Procurement Officer, MOH  
Millan Isack, Procurement Officer

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-14

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 6H80CS02467-26-03, 5H80CS02467-27-00  
Requirement: Program Income  
Questioned Costs: \$0

Criteria: In accordance with standard operating procedures, non-grant funds (i.e., State, Local and other operational funding and fees, premiums, and third-party reimbursements) which the program may reasonably be expected to receive, including any such funds in excess of those originally expected, shall be used as permitted under law and may be used for such other purposes as are not specifically prohibited under the law if such use furthers the objectives of the project.

Condition: The program does not perform its own billing and collection. Rather, the Ministry of Health performs this function. All fees collected are deposited and recorded in the Hospital Trust Fund Account, which is a Special Revenue Fund. There is no evidence available that program-related fees collected are used to further the objective of the program.

The Executive Director has represented that the program monitors collections; however, the collections are comingled with nonfederal funds without evidence to prove that collections are being used to further the objective of the program.

Cause: The cause of the above condition is the current fee structure and collections that are centralized at the Ministry of Health, and the lack of control over the tracking of program income.

Effect: The effect of the above condition is potential noncompliance with program requirements. No questioned costs result as we were unable to determine the dollar amounts of the potential program income.

Recommendation: We recommend that the Republic establish procedures to comply with program income requirements.

Prior Year Status: Noncompliance with program income requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2008 through 2010 as items 2008-22, 2009-41 and 2010-30.

Auditee Response and Corrective Action Plan: The Program concurs with the finding. Effective April 2013, the program established a specific account for which all collections from the Community Health Centers will be deposited. The Program will work with the Procurement Office, MOH to ensure funds are spent toward medical supplies and drugs as identified in the budget narrative for the grant.

Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Executive Director, CHC  
Analee Rose Maidesil, Budget/Fiscal Manager, Billing & Collections, MOH  
Ruth Wong, Director, Bureau of National Treasury

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-15

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 5H80CS02467-27-00, 5H80CS02467-27-01  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: Reports submitted to a grantor agency should include all activities of the reporting period, should be supported by underlying accounting or performance records, and be fairly presented in accordance with program requirements.

Condition: The 2012 universal data system (UDS) report due on February 15, 2013, reported program revenues and expenditures. The Program provided various reports utilized to prepare the UDS report. We examined the reports and traced the amounts to the general ledger (DILOG System), noting the following:

1. The total accrued cost reported in the UDS report totaling \$1,613,084 is comprised of the total medical care, other clinical services, other services and total facility and other non-clinical services including personnel costs aggregating \$554,732. However, the underlying records provided indicated personnel costs of \$509,093, resulting in a variance of \$45,639.
2. We further noted medical and pharmaceutical supplies aggregating \$851,905, of which only \$80,000 could be agreed to the general ledger.

Description	Per UDS Report 2012	Per General Ledger	Difference
Non-Pharmaceuticals	\$ 437,541	\$ 40,000	\$ 397,541
Pharmaceuticals	414,364	40,000	374,364
Total	\$ 851,905	\$ 80,000	\$ 771,905

3. The Program also reported donated facility and services of \$711,805 but no underlying accounting records were provided to support the amount.
4. There was no underlying accounting record for revenues reported representing self-pay of \$748,728. It was represented that the amount is the difference between the full charge of the service and the sliding discount and that the full charge derives from all encounter forms during the fiscal year. Such forms are maintained in a separate database. No report was provided to support the stated amount.

Cause: The cause of the above condition is the lack of internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program revenues and expenditures.

Effect: The effect of the above condition is noncompliance with above criteria. No questioned costs result as only the recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that management establish internal control procedures over file maintenance and underlying records to support reported program revenues and expenditures.



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-15, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 5H80CS02467-27-00, 5H80CS02467-27-01  
Requirement: Reporting  
Questioned Costs: \$0

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2010 and 2011 as items 2010-18 and 2011-12.

Auditee Response and Corrective Action Plan: ROP concurs with reservation based on the following:

#### Item 1:

The salary amount reported on the 2012 UDS was based on the individuals' most recent salary rate (December 31<sup>st</sup>, 2012). The total cost is slightly higher as some of the individuals' might have had a change in salary between January 1<sup>st</sup>, 2012 and December 31<sup>st</sup>, 2012. We will take into consideration for the next UDS report to calculate the salaries using the average for the year to match the personnel cost with the cost on the GL.

#### Item 2:

For Non-Pharmaceuticals: Of the \$397,541; \$374,364 is a portion of the amount recorded on the 2012 UDS Report, Table 9D, Row 14, Column B (\$748,728) as the Patient Related Revenue calculated during that budget period less any sliding discounts associated with each patient, to support Non-Pharmaceuticals. The remaining amount of \$23,177 (amount under General Supplies subaccount on the HHS Report for H23690) was added to the Non-Pharmaceuticals line erroneously as it had already been included in the 2012 UDS Report, Table 8A, Line 15 (Non-Clinical Support Services).

For Pharmaceuticals, the amount of \$374,364 is a portion of the amount recorded on the 2012 UDS Report, Table 9D, Row 14, Column B (\$748,728) as the Patient Related Revenue calculated during that budget period. The amount was calculated based on the full charges during the period less any sliding discounts associated with each patient, to support Pharmaceuticals (Medical Drugs).

#### Item 3:

Donated Facility = \$100,800. This amount was calculated based on the square footage of 8 Health Center locations. Each location was calculated, based on their floor plan at 2,100 ft<sup>2</sup>. The following was our calculations:

$60\text{ft} \times 35\text{ft} = 2,100 \text{ ft}^2$   
 $2,100 \text{ ft}^2 \times \$6 / \text{ft}^2 = \$12,600$  (\$6 is the standard average cost per ft<sup>2</sup> used by the Ministry of Health to calculate square footage)

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-15, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Community Health Centers Program  
Grant Number: 5H80CS02467-27-00, 5H80CS02467-27-01  
Requirement: Reporting  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan, Continued:

\$12,600 x 8 Health Centers = \$100,800.

The 8 Health Centers consist of Kayangel Dispensary, Northern Community Health Center (Ngarchelong), Eastern Community Health Center (Melekeok), Western Community Health Center (Ngaremlengui), Airai Dispensary, Southern Community Health Center (Peleliu), Angaur Dispensary and the Out-Patient Department located at Belau National Hospital.

Donated Services = \$611,005. This amount was calculated based on the salaries of all non-CHC paid providers and support staff who work at CHC and all its dispensaries. The spreadsheet is provided separately.

#### Item 4:

No report was provided as the information on the encounter report includes patient information that would breach the patient confidentiality clause. The amount was calculated based on the full charges during the period less any sliding discounts associated with each patient. The database used when reporting 2012 UDS was created using all encounter reports entered into the Health Information Systems (HIS) database and the Public Health Information System (PHIS) database. The data was then filtered to remove clinical data that is not applicable to CHC. This was filtered using ICD9 Coding.

#### Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Executive Director, CHC  
Everdil Rechebei, Budget Officer, CHC  
Regis Emesiochel, Comptroller, MOH

#### Date the corrective action plan will be implemented: Ongoing

Auditor Response: It appears that program revenues and expenditures were not based on underlying accounting records. Therefore, the finding remains.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-16

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: 5U58DP001952-03  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$22,884

Criteria: In accordance with applicable allowable costs/cost principles requirements, the following should be in place for effective grant administration:

- An effective system of internal control includes policies and procedures requiring that expenditures be authorized, supported and approved prior to incurrence.
- Costs charged to the program should have a direct or indirect benefit to the grant. In addition, capital expenditures as defined by OMB A-87, in excess of \$5,000, require prior approval of the grantor agency.
- If an employee works less than 100% on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program served, unless an alternative method has been authorized by the funding agency.

Condition: Of twenty-four expenditures tested totaling \$218,594, we noted the following:

1. For one (or 4%), no receiving report or certification of completion was on file from the Ministry of Health or other authorizing officer certifying that goods/services were received and/or completed. This instance is payment for what is essentially a meeting room, but no evidence of the multiple use of this facility was provided to substantiate the relevance of this charge to the program.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost Center</u>	<u>Amount</u>	<u>Description</u>
319985	854627	K13660	\$3,500	Meeting Room rental

2. For one (or 4%), an expenditure was recorded and paid twice. It was represented that an erroneous remaining balance in the underlying encumbrance report resulted from the first payment, which caused the second payment to be issued for the following:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost Center</u>	<u>Amount</u>	<u>Description</u>
328352	866971	H13660	\$2,900	Professional Services

3. For one (or 4%), certain services were performed from June 30, 2011 through June 29, 2012; however, the contract term started upon contract signing which was on February 26, 2012 and expired on June 29, 2012. It was represented that the period (per a memo dated July 3, 2012) was incorrect and that the contract period should have been the period requested for payment. However, per the Palau Year 5 Interim Progress Report Summary, it appears that the services performed were during FY 2011 through FY 2012. We calculated the total expenditures incurred prior to the contract term, which aggregated \$16,484 for the following:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost Center</u>	<u>Value</u>	<u>Description</u>
328922	877563	I13683	\$25,000	Professional Services

The \$16,484 of costs incurred prior to the effective date of the contract represents questioned costs.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-16, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: 5U58DP001952-03  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$22,884

#### Condition, Continued:

Of twenty-seven employees tested totaling \$20,021 of a total population of \$526,783, we noted the following:

4. Not all personnel appear to work 100% of their time on the National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal program, Cancer Prevention and Control Programs for State Territorial and Tribal Organization Program. Salaries unrelated to the program could not be determined based on available evidence, and therefore, no questioned cost could be estimated for the programs.
5. For 18 (or 67%), the employee worked 100% for the program, but there was no evidence of periodic, or at least semiannual certification that 100% of the employee's time was expended in connection with the program.

Cause: The cause of the above condition is lack of conformance with existing procedures that require adequate documentation be maintained to support program expenditures and lack of an alternative system that has been developed and been approved by the grantor agency.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and questioned costs of \$22,884.

Recommendation: We recommend that the Republic strengthen procedures to maintain adequate documentation on file supporting program expenditures and implement control procedures to prevent cost of local and/or other Federal grants from charging the grant.

Prior Year Status: Noncompliance with established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2010 as items 2006-23, 2007-21, 2008-17, 2009-18 and 2010-32.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-16, Continued

Federal Agency: U.S. Department of Human Health Services  
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: 5U58DP001952-03  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$22,884

#### Auditee Response and Corrective Action Plan:

Item 1, ROP does not concur with the finding. A certified invoice serves the same purpose as the receiving report meaning that an authorized officer from Ministry of Health did certify that goods/services were received/completed based on his signature on the invoice.

Item 2, ROP concurs with the finding. The vendor has returned the duplicate payment.

Item 3, The Program concurs with the finding. The request for proposal stated in the period of performance for one year with an option to renew each year for the period of five years. While this ongoing collaboration continued to implement activities toward deliverables under this agreement, a formal contract renewal took longer as expected. The program will consider this and will ensure that costs incurred for professional services will be based on the effective dates of the contracts.

Items 4 and 5, ROP concurs with this finding. MOF will ensure that the Program will implement the time certification policy to ensure time certifications are completed and filed.

#### Full name of the person responsible for the corrective action plan:

Edolm Ikerdey, Program Coordinator; Regis Emesiochel, MOH Comptroller  
Damian Wally, Program Coordinator;  
Gandhi Ngirmidol, Grants Manager, MOF

#### Date the corrective action plan will be implemented: On-going

Auditor Response: For item 1, an invoice was provided in the amount of \$3,500 for multiple rentals of a meeting room; however, there was no evidence of multiple use of the meeting room to substantiate relevance of this charge to the program. Therefore, the finding remains.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-17

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: 1U58DP003939-01  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$13,625

Criteria: A grantee must liquidate all obligations incurred under the grant award no later than ninety days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Federal Financial Report (SF-425). The Federal agency may extend this deadline at the request of the grantee.

#### Condition:

1. Expenditures totaling \$37,637 were charged to grant no. 5U58DP000776-05 (cost center no. H13683/I13683) one to three months after the grant period ended on June 29, 2012. There was no evidence that a grant period extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. Subsequent to our tests, adjustments were recorded by the Republic to move the expenditures from cost center #s H13683 and I13683 to cost center #s H23683 and I23683; thus, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no</u>	<u>Acct. no</u>	<u>Description</u>	<u>Amount</u>
H13683	1011	Salaries & Wages	\$ 27,658
H13683	1019	Social Security	1,356
H13683	1034	Civil Service Pension Plan	1,519
H13683	1080	Other Employee Benefits	701
H13683	1321	Communications	664
I13683	1011	Salaries & Wages	2,600
I13683	1019	Social Security	697
I13683	1034	Civil Service Pension Plan	585
I13683	1080	Other Employee Benefits	446
I13683	1321	Communications	1,411
Total			\$ <u>37,637</u>

2. Expenditures of \$3,650 were charged to grant no. 5U58DP001952-03 (cost enter no. H13660) one to six months after the grant period ended on March 30, 2012. There was no evidence that a grant period extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to a new grant applicable to this period. Subsequent to our tests, adjustments were recorded by the Republic to move the expenditures from cost center # H13660 to cost center # H23660; thus, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no</u>	<u>Acct. no</u>	<u>Description</u>	<u>Amount</u>
H13660	1321	Communication	\$ 3,490
H13660	1019	Social Security	82
H13660	1034	Civil Service Pension Plan	44
H13660	1080	Other Employee Benefits	34
Total			\$ <u>3,650</u>

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-17, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: 1U58DP003939-01  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$13,625

#### Condition, Continued:

3. Expenditures of \$1,084 were charged to grant no. 1UR3DD000809-01 (cost center no. H13682) one to four months after the grant period ended on June 30, 2012. There was no evidence that a grant period extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to a new grant applicable to this period. Subsequent to our testing, adjustments were recorded by the Republic to move the expenditures from cost center # H13682 to cost center # H23682; thus, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no</u>	<u>Acct. no</u>	<u>Description</u>	<u>Amount</u>
H13682	1321	Communication	\$ <u>1,084</u>

4. Expenditures totaling \$13,625 were charged to various grants after the grant period ended. There was no evidence that a grant period extension was obtained. It was represented that the Republic consulted with the Grantor agency and was informed that the amount may be liquidated after the budget period provided the FFR is filed showing that non-liquidated obligated amounts exist. No documentation from the grantor agency was provided to support that representation.

<u>Grant no.</u>	<u>Cost Center no.</u>	<u>Grant Budget Period</u>	<u>Amount</u>
5U58DP000776-05	H13683	06/30/11 - 06/29/12	\$ 5,249
5U58DP001952-03	H13660	03/31/11 - 03/30/12	6,922
1UR3DD000809-01	H13682	07/01/11 - 06/30/12	338
1U58SO000023-01 Revised	H13668	03/29/11 - 03/28/12	<u>1,116</u>
Total			\$ <u>13,625</u>

Cause: The cause of the above condition is a lack of control over period of availability compliance. There are no records on file evidencing grantor approval of a grant extension. There is also no mechanism in place to lock expired grant accounts to prevent their usage.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$13,625.

Recommendation: We recommend that management establish policies and procedures to comply with period of availability requirements.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-17, Continued

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: 1U58DP003939-01  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$13,625

Prior Year Status: Noncompliance with period of availability requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2010 as items 2006-24, 2007-23, 2008-19, 2009-31 and 2010-34.

Auditee Response and Corrective Action Plan: Program concurs with reservations. Grant Terms and Conditions specifically states *"If the FFR is not finalized by the due date, an interim FFR must be submitted, marked "NOT FINAL," and an amount of un-liquidated obligations should be annotated to reflect unpaid expenses."* ROP assumed this implies liquidation beyond the 90 days liquidation period is allowable unless it is the end of the Project Period. MOF will clarify this issue with grantor agency. MOF will also work closely with the Program to make sure grantor approval is obtained if the assumption above does not apply.

Full name of the person responsible for the corrective action plan: Gandhi Ngirmidol

Date the corrective action plan will be implemented: 9/30/2013

Auditor Response: The grant terms and conditions further indicate that failure to submit the required information in a timely manner may adversely affect the future funding of the project. Therefore, the finding remains.



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-18

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance  
Grant Number: 1U58DP003939-01  
Requirement: Matching, Level of Effort, Earmarking  
Questioned Costs: \$20,000

Criteria: Non-federal financial participation in the form of in-kind contribution (office space, equipment use, nurses, etc.) which is provided on an on-going basis should be appropriately documented and valued to determine that the required match has been made in accordance with program requirements.

Condition: The determination of the in-kind contribution to meet the required match occurs solely during the grant application. It appears that the local match of \$20,000 per the grant award notification is not otherwise documented, monitored or valued throughout the fiscal year or during the grant period (cost center no. H13683, H23683).

Cause: The cause of the above condition is a lack of support for in-kind non-federal participation.

Effect: The effect of the above condition is the lack of records to evidence compliance with the criteria and questioned costs of \$20,000.

Recommendation: We recommend that management establish procedures to document and value in-kind non-federal contributions.

Prior Year Status: Noncompliance with matching requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2010 as items 2006-25, 2007-24, 2008-20, 2009-28 and 2010-33.

Auditee Response and Corrective Action Plan: The Program concurs with this finding. Procedures have been implemented to begin corrective action. The Program has made it a requirement to record events and amount of hours that partners, including Cancer Coalition members, put in as contributions to the Program. The Program will also work with MOH and MOF personnel to come up with a formula to put a value on in-kind hours and other contributions.

Full name of the person responsible for the corrective action plan:

Edolem Ikerdeu, Program Coordinator, CHC-MOH  
Ruth Wong, Director Bureau of National Treasury, MOF  
Caryn L. Koshiba, Chief Finance & Accounting

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-19

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic Social, and Political Development of the Territories  
Grant Number: Compact of Free Association  
Requirement: Special Tests and Provisions  
Questioned Costs: \$0

Criteria: The Compact of Free Association, Section 211 (a), allows a maximum annual distribution of \$5 million from the trust fund for operations and maintenance purposes.

Condition: The Republic withdrew \$7,000,000, or \$2,000,000 in excess of the minimum allowed, in fiscal year 2012.

Cause: The cause of the above condition is cash shortage.

Effect: The effect of the above condition is noncompliance with the above criteria. No questioned costs result as the Republic reimbursed the trust fund subsequent to September 30, 2012.

Prior Year Status: The Republic withdrew \$7,000,000, or \$2,000,000 in excess of the minimum allowed, in 2011 and reimbursed the trust fund within the same year.

Recommendation: We recommend that the Republic comply with the above criteria.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. In order to comply with the terms and conditions of the Compact of Free Association (COFA), Section 211 (a), it is important that all parties involved with the COFA funds will be informed when the withdrawal will be made and in what amount and how much is available for the next drawdown/withdrawal. Therefore, ROP is currently going through this process when withdrawing COFA funds quarterly, not exceeding the minimum annual distribution and complying with 40 PNCA Section 409 (a)(2)(3). The process of withdrawing funds is as follows:

1. A letter with the amount requested for drawdown is sent to the Senate President and the Speaker of House of Delegates from the Minister of Finance, attached with Certification of Budget Authority approved by the Director of Budget and Planning and the Director of Bureau of National Treasury;
2. A letter from the Minister of Finance to the Honorable President requests approval of the drawdown;
3. The President's letter to the Investors authorizes the drawdown; and
4. The President's letter to the Institutional Client Services authorizes the transfer.

MOF will ensure that withdrawals/drawdowns not go beyond the minimum annual distribution.

Full name of the person responsible for the corrective action plan:

Ruth Wong, Director, Bureau of National Treasury

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-20

#### Single Audit Reporting

Criteria: The Single Audit Act Amendments of 1996 requires an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year to have a single audit for such fiscal year. The entity shall transmit the reporting package, which shall include the entity's financial statements, schedule of expenditures of Federal awards, corrective action plan, summary schedule of prior audit findings, and auditors' reports to the Federal clearinghouse and make it available for public inspection 9 months after the end of the period audited, or within a longer timeframe as authorized by the Federal agency when the 9-month timeframe would place an undue burden on the entity.

Condition: The Republic did not transmit the 2012 audit reporting package to the Federal Audit Clearinghouse within the required timeline.

Cause: The cause of the above condition is primarily due to turnover in management and the lack of adequate human resources within the accounting function of the Ministry of Finance.

Effect: The effect of the above condition is noncompliance with the Single Audit Act Amendments of 1996.

Recommendation: We recommend that the Republic require compliance with the above criteria.

Prior Year Status: The lack of timely transmittal of the annual audit reporting package was reported as a finding in the Single Audits of the Republic for fiscal years 2009 through 2011 as items 2009-11, 2010-08 and 2011-10.

Auditee Response and Corrective Action Plan: ROP concurs with this finding and acknowledges that we are behind schedule for our Annual Single Audit Reports due to the turnover in management and inadequate staff to perform such tasks.

Hence, MOF are working hard to achieve our goal of making the Single Audit report current by training our staff to duly perform such tasks and be able to work as a team to meet the deadline of the Single Audit Reports required in the Single Audit Act.

Full name of the person responsible for the corrective action plan:

Ruth Wong, Director, Bureau of Treasury, MOF

Caryn L. Koshiba, Chief of Finance & Accounting, MOF

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-21

##### Fixed Assets

Criteria: A reconciliation process should occur monthly or quarterly to confirm that all significant balance sheet accounts are reconciled and supported by valid detailed schedules. Reconciling items should be adequately explained and documented so that persons other than the preparer (e.g., management auditors, etc.) can readily understand the basis for the reconciling items.

Condition: Capital asset schedules were prepared at auditor requests and were received at various dates from May 24 through September 6, 2013. Adjustments made to the schedules were necessary based on actual fiscal year 2012 additions and disposals. The net fixed assets presented for audit were overstated by \$41,485,914. Audit adjustments were proposed to correct these misstatements.

Cause: There appears to be a lack of resources dedicated to facilitating timely reconciliation of capital asset schedules.

Effect: The effect of the above condition is weaknesses in the financial reporting process.

Recommendation: We recommend that management implement internal control policies and procedures to determine that the above criteria are adhered to.

Prior Year Status: Weaknesses in controls over capital asset schedules was reported as a finding in the Single Audits of the Republic for fiscal years 2007, 2009 and 2010 as items 2007-10, 2009-09 and 2010-01.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Appropriate steps are being taken to ensure balance sheet adjustments take place to address these misstatements. Effective FY 2014, periodic reconciliation will take place to ensure our balance sheet accounts are reconciled and supported by valid detailed schedules.

Full name of the person responsible for the corrective action plan:  
Millan Isack, Chief of Procurement & Supply, MOF

Date the corrective action plan will be implemented: October 2013

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-22

#### Local Noncompliance - Procurement

**Criteria:** In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. Purchases over \$10,000 require a formal bidding process. A public notice of the invitation for bids shall be made at a reasonable time at least fifteen (15) days prior to the date of the initial day of the bidding time. The notice shall be furnished to all state governments and to all persons who have requested to be included in bidders mailing list within the previous twelve months; be published in a newspaper of general circulation in the Republic or in a foreign newspaper if the Procurement Officer determines that publication would benefit the government; and shall be publically posted for at least fifteen days at the office of the Procurement Officer concerned, the post office building, the Courthouse, the Bureau of Domestic Affairs office, and announced on all radio and television stations within the Republic. A bidding time of at least thirty (30) calendar days shall be provided unless the Procurement Officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The contract must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to responsible bidder whose bid fully meets the requirements of the invitation for bids.

**Condition:** Of twelve fixed assets additions tested totaling \$12,302,102, of a total population of \$25,731,800, the following were noted:

1. The public notice of the request for proposal was advertised less than 15 days. There was no evidence in file that a lesser time period is reasonable. Furthermore, there was no evidence in file that public notice was announced on all the radio and television stations within the Republic. Although public notice was not in compliance with procurement requirements, there were more than one vendor who submitted a proposal for the following contracts:

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C10011	Koksai-Ngchesar Compact Connecting Road Project Phase III	\$ 2,265,000
C10013	Package-A: T-Dock Road Rehabilitation Project: Package-B: M-Dock Road Rehabilitation Project	\$ 481,427
C10015	Design/Build of the Ngermid Road Rehabilitation Project	\$ 360,000
C10012	Malakal Marine Resource Project Phase II	\$ 516,645

2. The contract was awarded after thirty (30) days for the following:

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C10011	Koksai-Ngchesar Compact Connecting Road Project Phase III	\$2,265,000
C10015	Design/Build of the Ngermid Road Rehabilitation Project	\$ 360,000
C20024	Ngermid Road Additions (Phase II)	\$ 288,000
C10012	Malakal Marine Resource Project Phase II	\$ 516,645
C10006	Design Build of the New Community Health Center Project	\$ 496,857

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-22, Continued

##### Local Noncompliance - Procurement

Cause: The cause of the above condition is inadequate procurement documentation.

Effect: The effect of the above condition is noncompliance with local procurement requirements.

Recommendation: We recommend that the Republic strengthen procedures to confirm compliance with local procurement requirements. We also recommend that exceptions to the procurement requirements be documented in contract files.

Prior Year Status: Noncompliance with local procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2010 as items 2004-02, 2005-09, 2006-10, 2007-13, 2008-05, 2009-12 and 2010-36.

Auditee Response and Corrective Action Plan: ROP concurs with this finding.

Item 1: At the time, this was huge cluster of project advertisements that happened on February 11, 2010. The responsible agency overlooked the 45 day benchmark on these. Effective immediately, the BPW will implement a check list system of monitoring our procurement activities to ensure that each and every procurement, whether they be single advertisement or multiple ads combined into one or several cluster, comply with all applicable statutes. BPW personnel have started this work by going over all relevant requirements under 40 PNC Ch.6 to develop this check list. Additionally, BPW will start advertising its projects on the radio and television.

Item 2: In competitively negotiated contracts, negotiations can sometimes go beyond the 30 days requirement. As exceptions, the BPW should have recorded these instances for the project files. This will be a part of the check list above as a pre award check list item. The exceptions coming about shall also be noted in the Record of Decision that BPW generates as a timeline of events, discussions, actions from Pre-bid period to Contract Award period.

##### Full name of the person responsible for the corrective action plan:

Brian Melairei, Acting Director  
Bureau of Public Works  
Procurement Officer

Date the corrective action plan will be implemented: Corrective actions will take place immediately starting October 2013.

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-23

### Revenues

Criteria: An audit trail should exist for all cash receipts. Collectability of receivables should be monitored and collection efforts should be enforced so that account balances are current. In addition, billing/statements of account (SOA) should be sent to customers in a timely manner.

Condition: Of \$2,928,908 in Hospital Trust Fund revenues, seventy-one receipts, totaling \$289,923, were tested, and the following exceptions were noted:

1. Variances were noted between cash receipts and invoices. The variance represents uncollected balances owed to the National Hospital as of September 30, 2012. There was no evidence that statements of patient accounts and/or collection notice letters were prepared and sent, and there was no evidence that timely follow up was performed during fiscal year 2012.

<u>Receipt Date</u>	<u>Receipt No.</u>	(A) <u>Receipt Amount</u>	<u>Invoice No.</u>	(B) <u>Invoice Amount</u>	(A) – (B) <u>Balance Owed</u>
01/06/2012	15254	\$ 386	1407	\$ 392	\$ (6)
01/30/2012	16582	4,247	46356	5,309	(1,062)
02/29/2012	18243	1,350	43501	1,550	(200)
05/07/2012	21507	2,007	54334	2,207	(200)
05/16/2012	21948	243	41298	294	(51)
09/27/2012	28208	361	70560	879	(518)
08/24/2012	26666	23,000	71958	29,772	(6,772)
05/15/2012	21886	24,000	55140	29,805	(5,805)
06/22/2012	23741	13,844	68743	18,249	(4,405)
07/30/2012	25433	22,595	67738	24,944	(2,349)
02/26/2012	18062	17,524	36863	19,524	(2,000)
01/06/2012	15230	24,000	36099	27,188	(3,188)
12/02/2011	13509	22,000	19885	27,239	(5,239)
04/07/2012	20175	18,032	49720	22,032	(4,000)
03/25/2012	19457	21,000	45549	47,009	(26,009)
01/30/2012	16582	4,247	46356	5,309	(1,062)
06/08/2012	23091	4,765	69393	6,227	(1,462)
03/21/2012	19250	3,000	56091	26,448	(23,448)
04/09/2012	20237	3,000	59243	5,319	(2,319)
02/10/2012	17202	2,857	49720	22,032	(19,175)
01/19/2012	15903	2,738	45549	47,009	(44,271)
04/17/2012	20570	2,725	60516	18,024	(15,299)
04/24/2012	20904	3,000	61659	29,586	(26,586)
09/11/2012	27446	2,468	84876	7,990	(5,522)
03/21/2012	19286	2,000	56172	11,156	(9,156)
09/11/2012	27433	1,000	84831	15,380	(14,380)
12/22/2011	14518	2,000	27954	13,680	(11,680)
04/27/2012	21101	1,000	62229	15,919	(14,919)
05/08/2012	21615	2,000	64201	5,716	(3,716)
05/08/2012	21620	2,000	64201	5,716	(3,716)
		<u>\$ 233,389</u>		<u>\$ 491,904</u>	<u>\$ (258,515)</u>

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

### Finding No.: 2012-23, Continued

#### Revenues

#### Condition, Continued:

2. For eight receipts, invoices documenting service dates, types of services rendered and rates charged could not be provided. In addition, the amounts included in accounts receivable could not be determined.

<u>Receipt No.</u>	<u>Amount</u>
224364	\$ 50
255680	50
255950	50
236893	50
255807	100
255725	50
255935	50
256000	30
Total	\$ <u>430</u>

3. The following invoices were paid prior to September 30, 2012, but were not reflected in patient outstanding balances:

<u>Receipt Date</u>	<u>Receipt No.</u>	(A) <u>Receipt</u> <u>Amount</u>	<u>Invoice No.</u>	(B) <u>Invoice</u> <u>Amount</u>	(A) – (B) <u>Balance</u> <u>Owed</u>
01/20/2012	16059	\$ 1,082	41982	\$ 1,282	\$ (200)
10/07/2011	10542	1,000	27954	16,680	(15,680)
10/07/2011	10556	1,828	20616	2,028	(200)
11/14/2011	12531	3,493	27279	3,693	(200)
12/14/2011	14073	1,141	34036	1,341	(200)
01/06/2012	15259	2,117	38411	2,317	(200)
02/29/2012	18239	140	30805	157	(17)
05/16/2012	21976	1,000	65699	8,918	(7,918)
09/27/2012	28209	508	71594	550	(42)
09/27/2012	28201	<u>3,518</u>	76983	<u>3,758</u>	<u>(240)</u>
		\$ <u>15,827</u>		\$ <u>40,724</u>	\$ <u>(24,897)</u>

Cause: The Ministry of Health does not have a process to determine that an audit trail exists for National Government cash receipts. The Hospital Information System, which contains patient data and related invoices, was not available or operating as of our test dates. In addition, there is a lack of evidence that patient outstanding balances are monitored and that collection attempts occur.

Effect: The effect of the above condition is potential misstatements of National Hospital revenues and lack of collections.



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-23, Continued

##### Revenues

Recommendation: We recommend that the Ministry of Health establish a systematic method of filing and maintaining invoices and relevant documents. We also recommend that statements of account (SOA) and collection notices be timely sent.

Prior Year Status: Lack of control procedures over National Hospital cash receipts and timely monitoring of statements of accounts sent to patients was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2007, 2009 and 2010 as items 2004-08, 2005-03, 2006-04, 2007-04, 2009-02 and 2010-03.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Currently, MOH are working on improving the AR collection by securing promissory notes with customers to create a payment plan in order to pay off their debts. In addition, they are also working vigorously to obtain payments from private insurance companies and Medical Savings Accounts-Health Care Fund (MSA-HCF) for customers who are under these insurance so that collections can be retrieved in a timely manner.

However, previous collections should be considered and MOH will work closely with MOF and the higher management to write off uncollectible receivables.

Full name of the person responsible for the corrective action plan:

Rose A. Maidesil, Budget & Finance Officer

Ruth Wong, Director, BNT-MOF

Caryn L. Koshiba, Chief Finance & Accounting

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No. 2012-24

##### Expenditures

Criteria: An effective system of internal control includes policies and procedures so that transactions are substantiated by proper and valid documentations.

Condition: Of forty Other Government Fund expenditures tested totaling \$2,058,620, of a total population of \$2,802,048, invoices and receiving reports or the equivalent for fourteen disbursements totaling \$1,225,000 for the Manila Medical Referral Program were not provided.

Cause: The cause of the above condition is a lack of control procedures over the expenditure cycle.

Effect: Invalid expenditure transactions may be recorded, and expenditure accounts may be misstated.

Recommendation: We recommend the Republic strengthen controls surrounding the expenditure cycle.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF are currently working with MOH to ensure that Medical Referral Program financial report summaries will be provided to MOF for all payments made to the Medical Referral Program.

##### Full name of the person responsible for the corrective action plan:

Regis Emesiochel, Comptroller, MOH

Rose A. Maidesil, Budget & Finance Officer, MOH

Caryn L. Koshiba, Chief of Finance & Accounting, MOF

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-25

Local Noncompliance - Equipment and Real Property Management

Criteria: The Republic's Property Management Policies and Procedures Manual (RPPM) Chapter IV stipulates in Section 203.7, "Accountable officers will maintain complete property management records and a physical inventory must take place annually."

Condition: There was no evidence of an annual physical inventory or reconciliation performed by an accountable officer for the fiscal year ended September 30, 2012.

Cause: The cause of the above condition is a lack of control over fixed assets.

Effect: The effect of the above condition is noncompliance with the above criterion.

Recommendation: We recommend that the Republic comply with the property management policies and procedures.

Prior Year Status: Noncompliance with annual physical inventory requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2010 and 2011 as items 2010-35 and 2011-03.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. A series of meetings between MOF and all the other ministries took place in FY2013 where MOF instructed all ministries to compile their own asset list. This list will be compared and reconciled to the MOF Asset Master List. In addition, the Chief of Property and Supply will work with the Property Survey Board regarding disposal of old and inoperable assets to update the fixed assets listing of the government.

Full name of the person responsible for the corrective action plan:  
Millan Isack, Chief, Division of Property and Supply

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No.: 2012-26

##### Local Noncompliance - Procurement

Criteria: Republic of Palau Public Law (RPPL) 3-54 Section 24.1 requires that contracts be awarded with reasonable promptness, and in no event later than 30 days after opening of the bids.

Condition: Of nineteen non-federal Grants Fund non-payroll expenditures tested, totaling \$4,320,373, we noted that Contract #s C1000401 and C2000301, totaling \$11,995,000, were awarded 113 days after the opening of the bid due to verification and the negotiation process.

Cause: The cause of the above condition is the law does not anticipate extended contract negotiations.

Effect: The effect of the above condition is unimplemented procurement policies and procedures.

Recommendation: The Republic should review the above provision and assess whether an amendment is appropriate.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. Grants for these CIP projects are based on bids received. ROP receives bids and forwards them to the Grantor Agency. The Grantor Agency reviews, concurs with selections, and proceeds to award Grants based on the bids received. This process takes longer than the 30 day requirement as stated above.

MOF and BPW will work with the Attorney General's office on revising the procurement law as well as this particular law and recommend changes for amendment.

Full name of the person responsible for the corrective action plan:

Brian Melairei, Acting Director, Bureau of Public Works-CIP Manager  
Gandhi Ngirmidol, Grants Manager, MOF  
Caryn Koshiba, Chief of Finance & Accounting  
Ruth Wong, Director, National Treasury

Date the corrective action plan will be implemented: Ongoing

Auditor Response: The abovementioned contracts were awarded later than 30 days as required by RPPL 3-54; thus, the finding remains.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No. 2012-27

##### Local Noncompliance - Procurement

Criteria: It is the policy of the Republic that all purchase and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economic practical procurement. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file.

Purchases over \$10,000 require a formal bidding process. Public notice of the invitation for bids shall be announced on all radio or television stations and shall be made at a reasonable time at least fifteen days prior to the date of the initial day of the bidding time. Contracts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders shall be promptly notified. Procurement files should contain public notice, invitation for bids or request for proposal, notice to unsuccessful bidder or offeror, basis for cost or price and determination.

In addition, the President acting under Article VIII, Section 14 of the Constitution and 34 PNC 5305, may authorize the Procurement Officer concerned to make an emergency procurement when the President determines the existence of a threat to public health, welfare, or safety. An emergency procurement shall be as competitive as practicable under the circumstances. A detailed and substantiated written determination describing the emergency, the extent of the competition obtained if any, and the basis for the selection of a particular contractor shall be prepared by the Procurement Officer concerned and made part of the contract file.

Condition: Of thirty-eight hospital expenditures tested totaling \$306,728 of a total population of \$3,144,824, the following exceptions were noted:

1. The award for procurement of medical supplies was issued under one request for proposal (RFP no. 14-10) in which the following exceptions were noted:
  - a. An award for purchase of medical supplies was also awarded to three bidders without documentation or comparative analysis to evidence the basis of selection and the basis for determining the award amount:

<u>Vendor no.</u>	<u>Medical Supplies</u>	
	<u>Proposed Amount</u>	<u>Awarded Amount</u>
30196	\$ 680,900	\$ 150,000
225	\$ 405,830	\$ 350,000
3752	\$ 1,476,193	\$ 100,000

- b. There was no evidence of notice of award to unsuccessful bidders in the procurement file.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No. 2012-27, Continued

#### Local Noncompliance - Procurement

#### Condition, Continued:

- c. There was no evidence that shows the entity kept track of the total purchase order amount to confirm that it was within the awarded amount.
2. The award for procurement of medical supplies was issued under one request for proposal (RFP no. 17-11) in which the following exceptions were noted:
  - a. An award for purchase of medical supplies was also awarded to three bidders without documentation or comparative analysis to evidence the basis of selection and the basis for determining the award amount:

<u>Vendor no.</u>	<u>Medical Supplies</u>	
	<u>Proposed Amount</u>	<u>Awarded Amount</u>
30196	\$ 2,607,902	\$ 250,000
225	\$ 404,243	\$ 400,000
3752	\$ 1,108,240	\$ 50,000
26007	\$ 2,012,921	\$ 75,000

- b. There was no evidence of notice of award to unsuccessful bidders in the procurement file.
- c. There was no evidence that shows the entity kept track of the total purchase order amount to confirm that it was within the awarded amount.

Cause: The cause of the above condition is weakness in controls over compliance with applicable procurement regulations.

Effect: The effect of the above conditions is noncompliance with applicable local procurement requirements.

Recommendation: We recommend that the Republic strengthen controls on procurement procedures to maximize competition while maintaining the best interest of the Republic. If exceptions are allowed by procurement requirements, they should be reviewed and be approved, and the reasons should be documented in the procurement files.

Prior Year Status: Noncompliance with local procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2007 through 2010 as items 2007-13, 2008-05, 2009-13 and 2010-22.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding No. 2012-27, Continued

##### Local Noncompliance - Procurement

Auditee Response and Corrective Action Plan: ROP concurs with the finding. All medical supplies and drugs go through proper bidding process. Prospective vendors are selected based on a series of factors to include price, payment arrangement, flexibility, etc. It is also noted on the recommendation letter that the price does not constitute the total obligation. This will allow for greater flexibility if unforeseen circumstances are faced by each vendor. In addition, the Chief of Property and Supply Division is currently working with both MOH Procurement Officer and MOH Pharmacist (she is in-charge of MOH warehouse now) to develop a methodology for determining awarded amounts based on competitive analysis as well as other relevant factors. The Supply Office has also put in place a mechanism to capture all expenditures pursuant to each respective RFP.

Full name of the person responsible for the corrective action plan:

Darnelle Decherong, Executive Director, CHC; Tasya Worswick, Procurement Officer, MOH; Millan Isack, Procurement Officer

Date the corrective action plan will be implemented: Ongoing

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding 2012-28

##### Local Noncompliance - Social Security Retirement Fund

Criteria: According to 41 PNC §772, if any contribution imposed by the Social Security Administration (SSA) is not paid on or before the date prescribed for such payment, SSA shall collect interest on the unpaid balance of contribution. The SSA currently requires payment of contributions within a month after each calendar quarter.

Condition: Payments of contributions to the SSA were not timely paid during and prior to fiscal year 2012. The payable to SSA of \$2,955,413 as of September 30, 2012 represents unpaid contributions covering 22 of the 26 pay periods in fiscal year 2012. As a result, interest on late payments aggregated \$422,406 as of September 30, 2012. However, the Republic did not recognize the related interest expenditure in its financial statements. The related interest expenditure was considered by management to be immaterial to the financial statements, and therefore, no audit adjustment was proposed.

Cause: The cause of the above condition is lack of timely payments to the SSA and compliance with the above criteria.

Effect: The effect of the above condition is noncompliance with the above criteria.

Recommendation: We recommend that the Republic comply with 41 PNC §772.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF acknowledges this problem and will work cohesively with higher management to reserve funds for this specific purpose. In addition, we will work closely with SSA to implement a payment plan to be adhered to in order for payments of contributions to be current.

Full name of the person responsible for the corrective action plan:  
Ruth Wong, Director Bureau of National Treasury-MOF  
Caryn L Koshiba, Chief Finance & Accounting-MOF

Date the corrective action plan will be implemented: On going



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Finding 2012-29

##### Local Noncompliance - Civil Service Pension Trust Fund

Criteria: According to 33 PNC §2030, delinquent sums owed to Civil Service Pension Plan (CSPP) shall accrue interest at the rate of 18% annually commencing three calendar days following the distribution of the payroll upon which such sum is owed.

Condition: Payments of contributions to the CSPP were not timely paid during and prior to fiscal year 2012. The payable to CSPP of \$3,147,716 as of September 30, 2012 represents unpaid contributions covering 22 of the 26 pay periods in fiscal year 2012. As a result, interest on late payments aggregated \$1,408,874 as of September 30, 2012. However, the Republic did not recognize the related interest expenditure in its financial statements. The related interest expenditure was recorded through proposed audit adjustment.

Cause: The cause of the above condition is lack of timely payments to the CSPP and compliance with the above criteria.

Effect: The effect of the above condition is noncompliance with the above criteria.

Recommendation: We recommend that the Republic comply with 33 PNC §2030.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF acknowledges this problem and will work cohesively with higher management to reserve funds for this specific purpose. In addition, we will work closely with CSPP to implement a payment plan to be adhered to in order for payments of contributions to be current.

Full name of the person responsible for the corrective action plan:

Ruth Wong, Director Bureau of National Treasury-MOF  
Caryn L Koshiba, Chief Finance & Accounting-MOF

Date the corrective action plan will be implemented: On going

# REPUBLIC OF PALAU

## Unresolved Prior Year Findings and Questioned Costs Year Ended September 30, 2012

### Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2012:

	<u>Questioned Costs</u>		
	<u>Republic</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of the Republic as previously reported:			
Fiscal year 2008 Single Audit	\$ 577,977	\$ -	\$ 577,977
Fiscal year 2009 Single Audit	967,990	-	967,990
Fiscal year 2010 Single Audit	1,668,099	-	1,668,099
Fiscal year 2011 Single Audit	<u>336,302</u>	<u>-</u>	<u>336,302</u>
	<u>3,550,368</u>	<u>-</u>	<u>3,550,368</u>
Less questioned costs resolved in fiscal year 2012:			
Questioned costs of fiscal year 2008 Single Audit reported in:			
Finding No. 2008-09 (1)	(62,326)	-	(62,326)
Finding No. 2008-10 (1)	(40,292)	-	(40,292)
Finding No. 2008-11 (1)	(36,924)	-	(36,924)
Finding No. 2008-12 (1)	(366,661)	-	(366,661)
Finding No. 2008-14 (1)	(3,960)	-	(3,960)
Finding No. 2008-16 (1)	(23,231)	-	(23,231)
Finding No. 2008-19 (1)	(22,083)	-	(22,083)
Finding No. 2008-20 (1)	<u>(22,500)</u>	<u>-</u>	<u>(22,500)</u>
	<u>(577,977)</u>	<u>-</u>	<u>(577,977)</u>
Questioned costs of fiscal year 2009 Single Audit reported in:			
Finding No. 2009-15 (2)	(12,600)	-	(12,600)
Finding No. 2009-16 (2)	(41,755)	-	(41,755)
Finding No. 2009-19 (2)	(726)	-	(726)
Finding No. 2009-20 (2)	(7,423)	-	(7,423)
Finding No. 2009-21 (2)	(7,378)	-	(7,378)
Finding No. 2009-22 (2)	(51,744)	-	(51,744)
Finding No. 2009-24 (2)	(339,548)	-	(339,548)
Finding No. 2009-28 (2)	(22,000)	-	(22,000)
Finding No. 2009-29 (2)	(30,654)	-	(30,654)
Finding No. 2009-30 (2)	(25,000)	-	(25,000)
Finding No. 2009-31 (2)	(13,967)	-	(13,967)
Finding No. 2009-32 (2)	(46,000)	-	(46,000)
Finding No. 2009-34 (2)	(40,441)	-	(40,441)
Finding No. 2009-35 (2)	(43,940)	-	(43,940)
Finding No. 2009-36 (2)	(142,640)	-	(142,640)
Finding No. 2009-37 (2)	(44,381)	-	(44,381)
Finding No. 2009-38 (2)	(14,630)	-	(14,630)
Finding No. 2009-44 (2)	<u>(83,163)</u>	<u>-</u>	<u>(83,163)</u>
	<u>(967,990)</u>	<u>-</u>	<u>(967,990)</u>

## REPUBLIC OF PALAU

### Unresolved Prior Year Findings and Questioned Costs, Continued Year Ended September 30, 2012

#### Questioned Costs, Continued

	<u>Questioned Costs</u>		
	<u>Republic</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of fiscal year 2011 Single Audit reported in:			
Finding No. 2011-06 (3)	<u>(13,451)</u>	<u>-</u>	<u>(13,451)</u>
	1,990,950	-	1,990,950
Questioned costs of fiscal year 2012 Single Audit	<u>763,348</u>	<u>-</u>	<u>763,348</u>
Unresolved questioned costs of the Republic at September 30, 2012	\$ <u>2,754,298</u>	\$ <u>-</u>	\$ <u>2,754,298</u>
(1)	OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the Republic considers these findings are no longer valid as they were reported to federal agencies on July 30, 2009, which is in excess of the two year threshold.		
(2)	OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the Republic considers these findings are no longer valid as they were reported to federal agencies on December 8, 2010, which is in excess of the two year threshold.		
(3)	Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Education, dated September 25, 2013.		

#### Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 65).

As required by Section \_\_\_\_ .315(b) of OMB Circulars A-133, the Republic of Palau Ministry of Finance prepared and hereby submits the following summary schedule of prior year audit federal findings for the year ended September 30, 2012:

Finding no.	CFDA #	Description	Status at 9/30/12
2009 -25	15.875	Cash Management	Corrective action was taken.
2009-32	15.875	Period of Availability	Not corrected. See corrective action plan at Finding no. 2012-04.
2009-38	15.875	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-05.
2009-42	15.875	Reporting	Not corrected. See corrective action plan at Finding no. 2012-06.
2010-06	15.875	Cash Management	Corrective action was taken.
2010-10	15.875	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2010-13	15.875	Period of Availability	Not corrected. See corrective action plan at Finding no. 2012-04.
2010-10	20.106	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2009-29	84.027	Matching, Level of Effort, Earmarking	Corrective action was taken.
2009-37	84.027	Procurement, Suspension & Debarment	Corrective action was taken.
2010-10	84.027	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2010-23	84.027	Cash Management	Corrective action was taken.
2010-26	84.027	Procurement, Suspension & Debarment	Corrective action was taken.
2009-25	84.256	Cash Management	Corrective action was taken.
2009-36	84.256	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-10
2009-39	84.256	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-10
2010-06	84.256	Cash Management	Corrective action was taken.
2010-10	84.256	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2010-10	93.069	Equipment and Real Property Management	Corrective action was taken.
2009-34	93.224	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-13.
2009-45	93.224	Special Tests and Provisions	Corrective action was taken.
2010-10	93.224	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2010-16	93.224	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-13.
2010-18	93.224	Reporting	Not corrected. See corrective action plan at Finding no. 2012-15.
2009-35	93.283	Procurement, Suspension & Debarment	Corrective action was taken.
2009-42	93.283	Reporting	Corrective action was taken.
2010-10	93.283	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2010-19	93.283	Procurement, Suspension & Debarment	Corrective action was taken.
2009-06	Major	Cash Management	Corrective action was taken.
2009-11	Major	Single Audit Report	Not corrected. See corrective action plan at Finding no. 2012-20.
2009-27	Major	Equipment and Real Property Mgmt.	Not corrected. See corrective action plan at Finding no. 2012-09.
2010-20	Major	Single Audit Report	Not corrected. See corrective action plan at Finding no. 2012-20.
2011-06	15.875	Cash Management & Period of Availability	Cash management correct. See corrective action plan at Finding no. 2012-04
2011-07	15.875	Reporting	Corrective action was taken.
2011-08	15.875	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2011-10	15.875	Reporting	Not corrected. See corrective action plan at Finding no. 2012-20.
2011-11	15.875	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-05.
2011-07	20.106	Reporting	Corrective action was taken.
2011-08	20.106	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2011-10	20.106	Reporting	Not corrected. See corrective action plan at Finding no. 2012-20.
2011-11	20.106	Procurement, Suspension & Debarment	Corrective action was taken.
2011-06	84.027	Cash Management & Period of Availability	Corrective action was taken.
2011-07	84.027	Reporting	Corrective action was taken.
2011-08	84.027	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2011-09	84.027	Matching, Level of Effort, Earmarking	Corrective action was taken.
2011-10	84.027	Reporting	Not corrected. See corrective action plan at Finding no. 2012-20.
2011-11	84.027	Procurement, Suspension & Debarment	Corrective action was taken.
2011-06	84.256	Cash Management & Period of Availability	Corrective action was taken.
2011-07	84.256	Reporting	Corrective action was taken.
2011-08	84.256	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2011-10	84.256	Reporting	Not corrected. See corrective action plan at Finding no. 2012-20.

2011-11	84.256	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-10.
2011-07	84.378A	Reporting	Corrective action was taken.
2011-10	84.378A	Reporting	Not corrected. See corrective action plant at Finding no. 2012-20.
2011-11	84.378A	Procurement, Suspension & Debarment	Corrective action was taken.
2011-08	93.069	Equipment and Real Property Management	Corrective action was taken.
2011-06	93.224	Cash Mangement & Period of Availability	Corrective action was taken.
2011-07	93.224	Reporting	Corrective action was taken.
2011-08	93.224	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2011-10	93.224	Reporting	Not corrected. See corrective action plan at Finding no. 2012-20.
2011-11	93.224	Procurement, Suspension & Debarment	Not corrected. See corrective action plan at Finding no. 2012-13.
2011-12	93.224	Reporting	Not corrected. See corrective action plan at Finding no. 2012-15.
2011-07	93.283	Reporting	Corrective action was taken.
2011-08	93.283	Equipment and Real Property Management	Not corrected. See corrective action plan at Finding no. 2012-09.
2011-10	93.283	Reporting	Not corrected. See corrective action plan at Finding no. 2012-20.
2011-11	93.283	Procurement, Suspension & Debarment	Corrective action was taken.